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Mouvement des Entreprises de France
MEDEF

A F E P

Association Francaise des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
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Paris, July 9, 2009

Re: *ED « Incom Tax »*

We welcome the opportunity to comment on this new exposure draft dealing with Income tax.

However, we believe this project should be removed from the Board's agenda for the following reasons:

- The project was launched as a short-term convergence project with FASB. As a result, changes proposed have been primarily directed at aligning one standard to the other, without any driving direction for improvement. The more so as FAS 109 is specially drafted to address totally different tax jurisdiction issues. The Board should have first tried to understand the implications of the proposals applied to a non US environment. Furthermore, as FASB has decided not to go along with any amendment of their standard on income tax, the objective of IAS 12 proposed amendments is lost.
- As a result, we have not observed any significant improvements in the new proposals, except for more clarity in the structure and wording, and we strongly question whether it is cost-beneficial to implement this new standard today.
- Indeed, we do not believe that proposals would provide a more useful and relevant information to users :
    - Defining the tax basis independently from management's expectations of how the carrying amount will be recovered or settled would cause income tax liabilities and assets to no longer represent future cash-flows;
    - The removal of the initial recognition exception in IAS 12 would bring great complexity in both the determination and the follow up of deferred income tax while making almost no difference in the amounts reported as deferred taxes;

- SFAS 109 requirements for allocation of income tax expense would reduce the relevance of the information presented and be no simpler than the present backwards tracing method.
- Investments in subsidiaries – both foreign and domestic - should continue to benefit from the existing exemption because it results in deferred taxes that are better estimates of future cash flows. The elimination of the exception would result in more costly consolidation procedures and in reduced relevance.
- The requirement to adopt a probability-weighted average of possible outcomes to take into account uncertainty in measuring tax positions would not produce more useful results than the best estimate approach and would be unduly onerous. Under a probability-based approach it would be particularly difficult for the entity to assume for each possible outcome the position of the tax authority concerned. Furthermore, the measurement principles proposed as well as the disclosures required in § 49 would jeopardize the entity's position vis-à-vis tax authorities; thus we urge the Board to adopt the same realistic approach as in IAS 37 § 92 (sensitive information could not be disclosed).

In addition to these main comments, answers to the detailed questions of the invitation for comment are provided in the appendix.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU	Alexandre TESSIER	Agnès LEPINAY
Chairman	Director General	Director of economic and financial affairs

Appendix to our letter on IASB ED "Income tax".
Answers to the specific questions raised in the invitation for comments

Question 1 - Definitions of tax basis and temporary difference

The exposure draft proposes changes to the definition of tax basis so that the tax basis does not depend on management's intentions relating to the recovery or settlement of an asset or liability. It also proposes changes to the definition of a temporary difference to exclude differences that are not expected to affect taxable profit. (See paragraphs BC17–BC23 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We disagree with the changes proposed for the reasons explained below:

1- We disagree with the definition of the tax basis being based on a disposal scenario for assets. Deferred taxes provide useful information insofar as they provide users with estimates of future cash outflows that are expected to arise at the time assets are realised and liabilities are settled. Estimates based on how management expects to realise assets or settle liabilities when different scenarios in realisation or settlement lead to different tax consequences are therefore more likely to provide useful information. We therefore believe that no change from the existing IAS 12 should be made in this area. Furthermore the choice made by the Board of the sale scenario for assets appears quite rule-based and arbitrary and would undermine financial reporting relevance since entities often acquire assets for operational use or consumption, and more seldom realise their operating assets through sale. No clear rationale for that choice is explained in the basis for conclusions. Such a change would bring uniformity in financial reporting, not enhance comparability (as in our mind, comparability means that differences that are relevant to users should be apparent instead of remaining hidden – See our answers to DP Financial Statement Presentation), prevent the predictability of cash-flows and undermine (further) the understandability and relevance of amounts reported as deferred taxes.

2- The whole approach proposed by the Board appears quite confusing. Indeed while the ED disregards management expectations in the way it determines the tax basis, it nevertheless considers management expectations in:

   a. Determining whether tax consequences are expected at all and hence whether any deferred tax should be recognised (§10)

   b. Determining the rate of taxation to be applied (§25 ; § B31)

   c. Determining any valuation allowance (§B25, Tax planning strategies ...)

   d. Appraising the permanent nature of the investments in foreign subsidiaries, branches, joint ventures (B5, B6)

   As a result, the decision by the Board to relate the tax basis definition to disposal scenarios seems to create inconsistencies within the IASB's whole approach. As indicated above, we believe the existing IAS 12 brings more relevant information than the proposals would, if applied.

3- Paragraphs 10 and following relating to the introduction of an initial step raise scope issues and lack clarity:

   a. We still wonder if the implementation of paragraph 10 leads to recognize less deferred tax assets / liabilities than IAS 12 permits. We understand that paragraph 10 a) replaces current paragraphs 7 and 8 from IAS 12 (tax basis equals carrying amount when no taxable income arises on the recovery of the asset and there is no amount deductible for liabilities in future period). There is not enough guidance to appreciate the effects of paragraphs 10 b) and 10c).

   b. We also suggest that the Board specifies in paragraph § 11 that the entity should take into account its expectation to recover / or to settle the carrying amount at the reporting date. Otherwise, this paragraph could lead to a wider scope.

      Let us consider a convertible debt with no deduction allowed upon repayment (example 6). If the tax basis and carrying amount differ at each interim reporting date (because of split accounting) but the entity expects not to repay and no tax consequence is expected at the end of the contractual term, what do paragraphs 10-11 require? Should no deferred tax be recognised because the entity expects no impact on taxable profit? Or should we recognise a deferred tax liability because we ought to have considered that the liability is settled for its <u>carrying amount at the reporting date</u>, even if the holder of the instrument will never accept to be paid under the nominal?

   c. At least, we believe that the initial recognition threshold should not be restricted to assets and liabilities (recognised in the balance sheet) but should also be applied to other elements as equity instruments or investments in subsidiaries and joint venture for example. In our jurisdiction, an entity that purchases its own equity instruments to cancel them does not face any tax consequence. Hence no deferred tax liability /asset should be recognised.

4- Finally, the Board's proposals identify "future deductions" (§16) as the tax basis of equity instruments without specifying the scenario giving rise to those future deductions (sale, cancellation, depreciation...).Does the Board intend, as has been decided for assets, that the tax basis of equity instruments equals the amounts that will be deductible against taxable income if the equity instrument is sold? If that is the case, we understand that a deferred tax asset would need to be recognised as soon as the entity purchases its own equity instruments (a deferred tax asset equal to, for example, the difference between the cost of the instruments purchased and their carrying amount, i.e. nil) even if the entity will never recover this tax asset. In our jurisdiction, for example, no tax effect would be expected if the entity cancels its equity instruments, whereas the tax effect of a sale would be based on the difference between proceeds from the sale and the purchase cost of the instruments, either a taxable profit or a deduction, depending on whether the transaction generates a gain or a loss. In no circumstance would the deferred tax asset faithfully represent the future tax inflow.

   We believe that the initial recognition exemption leads to more relevant outcomes as no deferred tax asset or liability is recognised when the initial recognition affects neither reported nor taxable profit. By the way, equity instruments should not be regarded as having a tax basis. Instead, if those equity instruments have tax consequences that will occur without any change to the carrying amount in equity, those consequences should be regarded as relating to items that have a tax basis but no asset or liability carrying amount and give a rise to recognise differed tax assets or liabilities.

Question 2 – Definitions of tax credit and investment tax credit

The exposure draft would introduce definitions of tax credit and investment tax credit. (See paragraph BC24 of the Basis for Conclusions.)

Do you agree with the proposed definitions? Why or why not?

We find rather odd that the definition of investment tax credit is limited in scope to depreciable assets (versus unlimited useful life assets as land) and assets acquired (versus internally generated assets as development assets). We wonder whether the US definition (that has been copied, we understand) is not influenced by jurisdictional specifics, and therefore not relevant for an international standard.

Furthermore, we regret that the Board did not take the opportunity of considering comprehensively accounting for tax credits and tax deductions. Investment tax credits are still scoped out of both IAS 12 and IAS 20. As a result there are uncertainties and divergent practices in this area.

Question 3 – Initial recognition exception

The exposure draft proposes eliminating the initial recognition exception in IAS 12. Instead, it introduces proposals for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. Such assets and liabilities are disaggregated into (a) an asset or liability excluding entity-specific tax effects and (b) any entity-specific tax advantage or disadvantage. The former is recognised in accordance with applicable standards and a deferred tax asset or liability is recognised for any temporary difference between the resulting carrying amount and the tax basis. Outside a business combination or a transaction that affects accounting or taxable profit, any difference between the consideration paid or received and the total amount of the acquired assets and liabilities (including deferred tax) would be classified as an allowance or premium and recognised in comprehensive income in proportion to changes in the related deferred tax asset or liability. In a business combination, any such difference would affect goodwill. (See paragraphs BC25–BC35 of the

Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We do not share the view expressed in the basis for conclusions that the application of the initial recognition exemption raises difficulties in practice. We are not aware of any. Moreover we observe that the Board addresses this issue rather mechanically. Exceptions, the Board says, would undermine robust, principle-based standards. We disagree. Exceptions may be needed if the qualitative characteristics of financial reporting such as relevance and reliability are to be best served or to meet cost/benefit trade-offs.

In this specific circumstance, we observe that:

- the change proposed does not improve the resulting financial information
- the process to provide the required information would be quite complex and rule-based, and involve quite subjective estimates (tax basis for an ordinary market participant); especially since final outcome will be in most circumstances quite similar to this obtained in applying the existing IAS 12;

- We are unsure that the new measurement attribute (cost excluding entity tax effects), a hybrid value between transaction cost and fair value, has real relevance. We observe that this proposal would create yet a supplementary measurement attribute used in IFRS and is not consistent with the way assets and liabilities are measured initially under other IFRSs
- We are unsure of the economic phenomenon that the premium / allowance arising from this computation is supposed to represent.

Question 4 - Investments in subsidiaries, branches, associates and joint ventures

IAS 12 includes an exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The exposure draft would replace these requirements with the requirements in SFAS 109 and

APB Opinion 23 Accounting for Income Taxes—Special Areas pertaining to the difference between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. Deferred tax assets and liabilities for temporary differences related to such investments are not recognised. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS 12 relating to investments in associates would be removed.

The Board proposes this exception from the temporary difference approach because the Board understands that it would often not be possible to measure reliably the deferred tax asset or liability arising from such temporary differences. (See paragraphs BC39–BC44 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not? Do you agree that it is often not possible to measure reliably the deferred tax asset or liability arising from temporary differences relating to an investment in a foreign subsidiary or joint venture that is essentially permanent in duration? Should the Board select a different way to define the type of investments for which this is the case? If so, how should it define them?

Once again, we believe that the Board has addressed this issue mechanically. The existing exception in IAS 12 prevents the recording of deferred tax liabilities where the present value of possible cash outflows is close to nil. Applying the existing exception therefore provides more meaningful, more relevant information to users. The exception should be maintained for all subsidiaries, branches, associates and joint ventures, whether domestic or foreign.

We regard the whole discussion of feasibility as not relevant to determine whether the exception should remain. Maintaining the exception for foreign subsidiaries only would undermine the quality of the information reported:

- Partial exemption would impair comparability and neutrality, as group structures and geographical implementation would influence the information being reported;
- Computation of deferred tax on undistributed earnings is notably complex due to the existence of many different tax options and any estimate that disregards management decisions cannot be reliable;
- The removal of the exemption would trigger the recognition of deferred taxes on accumulated conversion translation adjustments and hence introduce variations in income tax expense without any predictive value to users;

Also the standard would be more complex as guidance would need to be developed to support consistency in the implementation of the "essentially permanent in duration" and the "foreign subsidiary" notions and to illustrate how to determine the tax basis and compute the deferred tax liability.

Question 5 – Valuation allowances

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS 12 requires a one-step recognition approach of recognising a deferred tax asset to the extent that its realisation is probable. The exposure draft proposes instead that deferred tax assets should be recognised in full and an offsetting valuation allowance recognised so that the net carrying amount equals the highest amount that is more likely than not to be realisable against taxable profit. (See paragraphs BC52–BC55 of the Basis for Conclusions.)

Question 5A

Do you agree with the recognition of a deferred tax asset in full and an offsetting valuation allowance? Why or why not?

We agree. Separating the recognition of the asset from the process of assessing its recoverability leads to more transparency.

Question 5B

Do you agree that the net amount to be recognised should be the highest amount that is more likely than not to be realisable against future taxable profit? Why or why not?

We do not support to substitute « more likely than not » to "probable" because in our view, "the highest amount that is more likely than not" is not similar to the term probable in existing IAS 12 and this use will lead to very different outcomes. We believe that a "best estimate" approach would be more appropriate and would lead to more useful information. This approach is consistent with our position on uncertain tax positions.

However, if the Board wants to maintain its proposal, some additional guidance and examples should be provided to illustrate how to determine the <u>highest amount</u> that is more likely than not to be realisable against future taxable profit.

Question 6 - Assessing the need for a valuation allowance

Question 6A

The exposure draft incorporates guidance from SFAS 109 on assessing the need for a valuation allowance. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed guidance? Why or why not?

We believe that this guidance is very rule-based and does not add any significant improvement on IAS 12 guidance. Once again, we note that the Board has chosen to transpose with no further analysis, some provisions especially drafted in a US context (where tax losses cannot be carried forward indefinitely for example).

Question 6B

The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed requirement? Why or why not?

Nature of expenses mentioned in § B18 should be specified and the guidance may be more helpful with an illustration (FAS 109 § 247 – 251 for example)

Question 7 – Uncertain tax positions

IAS 12 is silent on how to account for uncertainty over whether the tax authority will accept the amounts reported to it. The exposure draft proposes that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes, assuming that the tax authority examines the amounts reported to it by the entity and has full knowledge of all relevant information. (See paragraphs BC57–BC63 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We disagree with the Board proposal on uncertain tax positions as we disagree with the proposed amendment to IAS 37. We support a best estimate approach with a recognition threshold.

Taking into account uncertainty in the measurement of tax positions is a very sensitive and subjective area and there is no place for mathematic formula. We therefore oppose the proposed approach based on the probability-weighted average of all possible outcomes.

Instead we support an approach based on the best estimate of the additional amount that the entity expects to pay in case of review by the tax authority, using a probability recognition criterion. We oppose the removal of that criterion, as we have done when commenting on the proposed amendments to IAS 37.

The best estimate approach alone provides relevant information, as many tax risks have black or white outcomes, and the range of various scenarios – some of which unlikely to occur - would not allow for representation faithfulness of the information.

Indeed under a probability-based approach it would be particularly difficult for the entity to assume for each possible outcome the position of the tax authority concerned. Furthermore the information required would be very onerous to provide, all the more so that the proposal disregards the probability recognition criterion in the framework

Question 8 - Enacted or substantively enacted rate

IAS 12 requires an entity to measure deferred tax assets and liabilities using the tax rates enacted or substantively enacted by the reporting date. The exposure draft proposes to clarify that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.(See paragraphs BC64–BC66 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We agree with the clarification made about the term “substantive enactment”. However we strongly object to IFRS referring to specifics of any jurisdiction.

Question 9 – Sale rate or use rate

When different rates apply to different ways in which an entity may recover the carrying amount of an asset, IAS 12 requires deferred tax assets and liabilities to be measured using the rate that is consistent with the expected manner of recovery. The exposure draft proposes that the rate should be consistent with the deductions that determine the tax basis, ie the deductions that are available on sale of the asset. If those deductions are available only on sale of the asset, then the entity should use the sale rate. If the same deductions are also available on using the asset, the entity should use the rate consistent with the expected manner of recovery of the asset. (See paragraphs BC67–BC73 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We believe that management expectations should be used to determine both the rate applicable and the tax basis (see answer to question 1)

We also would like at this point to raise the matter of the tax rate to be applied to consolidating adjustments for intra-group transfers of assets and liabilities:

While we agree with the Board that the current tax paid should not be deferred (as required in ARB 51§ 17) and a differed tax asset should be recognized because of the difference between the tax basis of the assets in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statement (contrary as it required in FAS 109 § 9e), we would like to see this deferred tax asset computed by using the seller's tax rate instead of the Buyer's one.

Actually, even if we generally favour principle-based standards, we believe that information usefulness is paramount. In this specific circumstance, we believe our proposition is producing information more meaningful and relevant for users than information distorted yet compliant with the IAS 12 approach.

Question 10 - Distributed or undistributed rate

IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognised. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entity's past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We agree with the proposals as we believe that management expectations should be reflected in the determination of the tax rate (see Q9)

Question 11 – Deductions that do not form part of a tax basis

An entity may expect to receive tax deductions in the future that do not form part of a tax basis. SFAS 109 gives examples of 'special deductions' available in the US and requires that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 is silent on the treatment of other deductions that do not form part of a tax basis.

IAS 12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change. (See paragraphs BC82–BC88 of the Basis for Conclusions.)

Do you agree that the exposure draft should be silent on the treatment of tax deductions that do not form part of a tax basis? If not, what requirements do you propose, and why?

We agree that the exposure draft should be silent on this issue.

Question 12 - Tax based on two or more systems

In some jurisdictions, an entity may be required to pay tax based on one of two or more tax systems, for example, when an entity is required to pay the greater of the normal corporate income tax and a minimum amount. The exposure draft proposes that an entity should consider any interaction between tax systems when measuring deferred tax assets and liabilities. (See paragraph BC89 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We agree with the proposals

Question 13 – Allocation of tax to components of comprehensive income and equity

IAS 12 and SFAS 109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognised outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.)

Question 13A

Do you agree with the proposed approach? Why or why not?

The exposure draft deals with allocation of tax to components of comprehensive income and equity in paragraphs 29–34. The Board intends those paragraphs to be consistent with the requirements expressed in SFAS 109

Once again, we believe that the cost / benefit trade-off is not met and information arising from this new amendment would not be either relevant or useful.

1. First we are concerned by the new proposed method to allocate tax effects relating to prior years operations. This method is not easier to apply than the actual backward tracing method; in addition, it would give rise to very counter-intuitive results and generate more volatility in continuing operations.

Because accounting symmetry is the only way to make sense to each component of comprehensive income, we agree with proposals stated in paragraph 29 A: Subsequent changes in previous amount should be recognised in the same component as the tax expense was originally recognised, if practicable. If not practicable, the entity shall make a reasonable pro rata allocation or use another method if more appropriated.

Moreover, new requirement will lead to an increase in the volatility in profit from continuing operations that will absorb all changes in tax rate, tax status and valuation allowance. The effective tax rate will lose much of its meaning because tax expense will be disconnected from the profit before tax.

We also feel concerned with the subsequent reversal of deferred tax that is kept in OCI without adjustment at the date of the tax rate change. If the underlying proposed principle is similar to the FAS 109 rule, the amount would be "stored" in equity until the date of sale of the respective security, i.e. when it has to be reversed through continuing operations. Therefore the OCI would reflect after tax unrealised gains / losses under consideration of the former valid tax rates. Further, the accounting for tax rate changes would impact the results of operations in future periods in which these securities are sold.

Concerning changes in valuation allowance, we support the view developed in § B34A because it is consistent with the accounting symmetry we are looking for.

2. We also regret that no alternative approach is proposed for allocation of tax in respect of current year operations as the proposed approach is very rule-based and would not always provide meaningful results (§ 34). We believe that the principle stated in IAS 12 should be maintained: "Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself"

   We agree that in some circumstances the actual allocation creates difficulties in practice. These difficulties could be overcome by appropriate supplementary guidance. They do not justify a change of method.

Question 13B

Would those paragraphs produce results that are materially different from those produced under the SFAS 109 requirements? If so, would the results provide more or less useful information than that produced under SFAS 109? Why?

We do not want to comment on differences between FAS 109 requirements and the new proposals because it is beyond the scope of a comment letter on a new IFRS. The only concern should be the relevance of new requirements, whether they converge with FAS 109 or not.

Question 13C

The exposure draft also sets out an approach based on the IAS 12 requirements with some amendments. (See paragraph BC97 of the Basis for Conclusions.)

Do you think such an approach would give more useful information than the approach proposed in paragraphs 29–34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not

See answer to question 13 A

Question 13D

Would the proposed additions to the approach based on the IAS 12 requirements help achieve a more consistent application of that approach? Why or why not?

See answer to question 13 A

Question 14 - Allocation of current and deferred taxes to entities within a group that files a consolidated tax return

IAS 12 is silent on the allocation of income tax to entities within a group that files a consolidated tax return. The exposure draft proposes that a systematic and rational methodology should be used to allocate the portion of the current and deferred income tax expense for the consolidated entity to the separate or individual financial statements of the group members. (See paragraph BC100 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We agree with the proposal

Question 15 - Classification of deferred tax assets and liabilities

The exposure draft proposes the classification of deferred tax assets and liabilities as current or non-current, based on the financial statement classification of the related non-tax asset or liability. (See paragraphs BC101 and BC102 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We do not agree with this proposal because we do not believe that the proposed classification is appropriate to reflect the liquidity risk on deferred tax assets and liabilities (a portion of deferred tax assets/ liabilities related to fixed assets could be reversed within twelve months from the reporting date; to present such portions as non current would be misleading). We believe that the current classification is more practical and should be maintained as a reasonable approach.

We also disagree with § 35 that any valuation allowance should be allocated pro rata between current and non-current deferred tax assets as it may apply to one specific deferred tax asset or for example, a particular type of income

Question 16 – Classification of interest and penalties

IAS 12 is silent on the classification of interest and penalties. The exposure draft proposes that the classification of interest and penalties should be a matter of accounting policy choice to be applied consistently and that the policy chosen should be disclosed. (See paragraph BC103 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

We agree with the proposals

Question 17 - Disclosures

The exposure draft proposes additional disclosures to make financial statements more informative. (See paragraphs BC104–BC109 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

The Board also considered possible additional disclosures relating to unremitted foreign earnings. It decided not to propose any additional disclosure requirements. (See paragraph BC110 of the Basis of Conclusions.)Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.

- Uncertainty in tax positions: We particularly object to the requirements under § 49. We would like to remind the Board of our strong concerns regarding the approach proposed (see our response to question 7) and of the practical difficulties involved in disclosures (information about major sources of estimation uncertainties, including an indication of their possible effects and timing), which notably could weaken the entity's position vis-à-vis tax authorities. We insist that the Board must take a realistic approach to what is feasible and meaningful in this area and we recommend to adopt the same realistic approach as in IAS 37 § 92 (sensitive information could not be disclosed)

- The proposal in §43 of the ED that the numerical tax rate reconciliation should take as the applicable rate in the country of domicile may not be relevant in all cases. The current option of aggregating separate reconciliations using the domestic rate in each individual jurisdiction should be maintained.

- Intra-group transfers of assets: we understand that users are requesting the information that the use of the seller-rate approach would produce and that the Board has therefore included in §. 48(d) a disclosure of the effect of the distortion. We strongly believe that it would be much more helpful to users if the seller-rate approach was adopted and reflected in the primary financial statements. The need for additional disclosures acknowledges that the proposed principle is expected not to produce useful information. We believe that the right course of action is to change the principle, not to require disclosures to cope with a failed principle

Question 18 - Effective date and transition

Paragraphs 50–52 of the exposure draft set out the proposed transition for entities that use IFRSs, and paragraph C2 sets out the proposed transition for first-time adopters. (See paragraphs BC111–BC120 of the Basis for Conclusions.)

Do you agree with these proposals? Why or why not?

We broadly support the proposals, nevertheless illustrative examples could be useful to illustrate § 52 and the restatement of the opening financial statement with an entity specific tax adjustment.