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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Exposure Draft *Deferred Tax: Recovery of Underlying Assets*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standard Board (IASB) on the income taxes project, and welcomes the opportunity to comment on the exposure draft *Deferred Tax: Recovery of Underlying Assets***.**

We understand that this proposal entails limited amendments, given the existing laws in specific jurisdictions. However, we also think, that there is a need to state why it would be appropriate for the international accounting standards to reflect these revisions.

The following are our concerns related to the amendments.

Question 1 – Exception to the measurement principle

The Board proposes an exception to the principle in IAS12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value. Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value? Why or why not?

Comment:

We do not agree with the proposal.

When the fair value model or the revaluation model is used for investment properties and other assets, under the proposed amendments it is presumed that, if there is no clear evidence that the asset is recovered by a method other than a sale, it would be considered to be recovered by sale. However, we do not think there is maybe sufficient relation in values between the application of the fair value model or revaluation model and an entity expecting to sell those assets.

We acknowledge that IAS 40 *Investment Property* intends to achieve the convergence with the fair value model, and that the current IFRS permits the use of the cost model for two reasons: (1) to give preparers and users time to gain experience with using a fair value model; (2) to allow time for countries with less-developed property markets (see BC 12 and B46 of IAS 40). If accounting of investment property is converged to the fair value model in the future, it will be presumed, under the proposed amendments, that all investment properties are recovered by sale. This treatment appears inappropriate, given that the buildings held under operating leases are included in investment property.

We believe that the proposed amendments establish a unilateral presumption as a means of resolving practical difficulties faced by entities under a specific legal system, not as a means of appropriately reflecting underlying facts in financial statements per se. The current standard is principle-based, and we do not think it is appropriate to amend the standard to mandate the accounting for all entities based on a presumption that may differ from reality.

Yours faithfully,

Keiko Kishigami
Executive Board Member－Accounting Practice (IFRS)
The Japanese Institute of Certified Public Accountants