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IFRS Interpretations Committee
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Re: Interpretation Committee tentative agenda decisions

Dear Wayne,

We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in January 2014) on IAS 12 – "*Impact of an internal reorganization on deferred tax amounts related to goodwill*".

IAS 12 – "Impact of an internal reorganization on deferred tax amounts related to goodwill"

The issue relates to the calculation of deferred taxes as a consequence of an internal reorganization of an entity. The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences. The IFRS IC also noted that transferring the goodwill to the subsidiary would not meet the initial recognition exception described in paragraphs 15 and 24 of IAS 12. The Interpretations Committee considered that existing IFRS requirements and guidance were sufficient and decided not to add this issue to its agenda.

The IFRS IC believes that the exceptions in paragraphs 15 and 24 of IAS 12 would not apply to the submitter's case because from the perspective of the consolidated financial statements, the transfer of the goodwill to Subsidiary A does not trigger either "the initial recognition of goodwill" or "the initial recognition of an asset or liability in a transaction".

In relation to this position, we would like to highlight some points of attention referring to the wording of the tentative decision.
In particular, in its response, the IFRS IC refers both to the inapplicability of the initial recognition exception under paragraph 15 (taxable temporary difference on goodwill) and under paragraph 24 (deductible temporary difference for the parent) in the consolidated financial statements. We

believe that there is no specific need to mention the inapplicability of the initial recognition exception under paragraph 24 since it does not seem that it is applied in the parent's separate financial statements. Indeed the deductible temporary difference in the parent separate financial statements (difference A) does not stem from an "*initial recognition*" of goodwill but rather from its "*derecognition*". In consequence of this derecognition, as described in the fact pattern, a deductible temporary difference arises.

Therefore it is suggested to the IFRS IC that, in rejecting the submission, refers only to the inapplicability of the exception under paragraph 15 of IAS 12, and not also to the one of paragraph 24.

Finally, it seems to be helpful that the Interpretations Committee remind that an entity, in the consolidated accounts, shall offset deferred tax assets and deferred tax liabilities if the requirements of IAS 12 for offsetting are met. In this situation, the restructuring transaction would be presented in the consolidated financial statement as nothing has happened.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)