

STAFF PAPER

November 2016

IFRS® Interpretations Committee Meeting

Project	Uncertainty over Income Tax Treatments
Paper topic	Due Process

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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee®. Comments made in relation to the application of an IFRS Standard do not purport to be acceptable or unacceptable application of that IFRS Standard®—only the IFRS Interpretations Committee or the International Accounting Standards Board® (the “Board”) can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Objective

1. This paper sets out the due process steps taken in the development of the IFRIC Interpretation *Uncertainty over Income Tax Treatments* (the Interpretation).
2. This paper is structured as follows:
 - (a) Background (paragraphs 4–6)
 - (b) Confirmation of due process steps (paragraph 7);
 - (c) Re-exposure (paragraphs 8–10);
 - (d) Permission to ballot (paragraph 11);
 - (e) Support for the Interpretation (paragraph 12);
 - (f) Effective date and transition (paragraph 13–15); and
 - (g) Proposed timetable for balloting and ratification by the International Accounting Standards Board (the Board) (paragraphs 16–17).
3. Appendix A to this paper summarises the actions the Interpretations Committee has taken to meet the due process requirements for finalising an Interpretation specified in paragraphs 7.14–7.22 of the *Due Process Handbook*.

Background

4. The Interpretations Committee published draft IFRIC Interpretation *Uncertainty over Income Tax Treatments* (the draft Interpretation) in October 2015.
5. The draft Interpretation proposed the following:
 - (a) the Interpretation would apply to income taxes within the scope of IAS 12 *Income Taxes*;
 - (b) an entity would determine whether to consider uncertain tax positions separately or collectively;
 - (c) an entity would assume that a taxation authority with the right to examine amounts reported to it will examine those amounts and have full knowledge of all relevant information when making those examinations;
 - (d) if an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, it would determine the related tax positions consistently with the tax treatment used or planned to be used in its income tax filings; and
 - (e) if an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it would reflect the effect of uncertainty in determining the related tax positions by using either the most likely amount or the expected value. An entity would select the measurement method that provides a better prediction of the resolution of the uncertainty.
6. The draft Interpretation had a 120-day comment period, which ended in January 2016. Sixty-one comment letters were received. [Agenda Paper 7](#) of the July 2016 Interpretations Committee meeting sets out a summary of the feedback received on the draft Interpretation.

Staff analysis and recommendation

Confirmation of due process steps

7. Appendix A to this paper summarises the due process steps taken in developing the Interpretation. We note that the required due process steps for issuing the Interpretation have been completed.

Re-exposure

8. We recommend that the Interpretations Committee does not re-expose the Interpretation. In making this recommendation, we considered the requirements of paragraphs 6.25–6.29 of the *Due Process Handbook*.
9. Overall, respondents supported the proposals in the draft Interpretation and no substantial issues were identified. The Interpretations Committee decided to make a number of clarifications to the proposals in the draft Interpretation—the clarifications are consistent with the proposals set out in the draft Interpretation and do not include substantial changes.
10. Consequently, we think that there are no substantial changes being made on which respondents have not had the opportunity to comment. Therefore, re-exposure would be unlikely to reveal any new concerns.

Permission to ballot

11. The Interpretations Committee has undertaken the due process activities required in the *Due Process Handbook* (see Appendix A) to finalise the Interpretation. If the Interpretations Committee is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation to support the issuance of the Interpretation, we request permission to start the balloting process.

Support for the Interpretation

12. Any Interpretations Committee member who plans to object to the Board issuing the Interpretation is asked to make their intention known at this meeting. Paragraph 7.20

of the *Due Process Handbook* requires us to identify to the Board how many Interpretations Committee members object to the Interpretation and their reasons for doing so. Consequently, if any member plans to object to the Interpretation, they will be asked to provide an explanation of their reasons for doing so.

Effective date

13. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems, and those applying IFRS Standards have sufficient time to prepare for the new requirements. The draft Interpretation did not propose an effective date.
14. We think that a period of twelve months between issuing the Interpretation and the mandatory effective date would give preparers sufficient time to prepare for the new requirements. In considering the time needed for such preparation, we note that the Interpretations Committee decided at its September 2016 meeting to provide transition relief. That transition relief means that an entity is not required to restate comparative information when first applying the Interpretation.
15. We expect to issue the Interpretation in the second quarter of 2017. Consequently, we recommend an effective date of 1 January 2019, with earlier application permitted.

Proposed timetable for balloting and ratification by the Board

16. The balloting process for the Interpretation will commence in December 2016, with the issue of the Interpretation expected in the second quarter of 2017.
17. We expect to ask the Board to ratify the Interpretation at its meeting in the first quarter of 2017, once the balloting process is complete.

Questions for the Interpretations Committee

1. **Re-exposure**—does the Interpretations Committee agree with the staff recommendation not to re-expose the Interpretation?
2. **Permission to ballot**—is the Interpretations Committee satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the Interpretation?
3. **Support**—does any member of the Interpretations Committee plan to object to the Board issuing the Interpretation?
4. **Effective date**—does the Interpretation Committee agree with the staff recommendation to have an effective date of 1 January 2019, with earlier application permitted?

Appendix A – Due Process Steps

<i>Step</i>	<i>Required or Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to the Due Process Oversight Committee (DPOC)</i>	<i>Actions</i>
Consideration of information gathered during consultation				
The Interpretations Committee posts all comment letters received in response to the draft Interpretation on the project website.	Required if request issued.	Letters have been posted on the project website.	The Board has reported on the progress, including a summary of statistics of respondents, as part of its technical update report at Trustee meetings.	All letters have been posted to the website.
Interpretations Committee meetings are held in public and all decisions are made in public.	Required.	Meetings held. Project website contains a full description with up-to-date information. Meeting papers have been posted in a timely fashion.	The Board has reported on progress as part of its technical update report at Trustee meetings.	The website has been updated. Meeting papers have been posted on time.
The Interpretations Committee is satisfied that sufficient outreach has been undertaken.	Required.	Analysis of outreach has been undertaken, or an explanation has been given as to why no additional outreach was necessary.	The Interpretations Committee has reported on progress as part of its technical update report at Trustee meetings.	Yes.
Email alerts are issued to registered recipients.	Optional.	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	Yes.
Finalisation				
Due process steps are reviewed by the Interpretations Committee.	Required.	Summary of all due process steps discussed by the Board before an Interpretation is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Interpretation is issued.	As outlined in this Agenda paper.
Consideration for the need for re-exposure of the Interpretation.	Required.	An analysis of the need to re-expose has been considered at a public Interpretations Committee meeting, using the agreed criteria.	The Board has discussed its thinking on the issue of a re-exposure with the DPOC.	As outlined in this Agenda paper.

Step	Required or Optional	Metrics or evidence	Evidence provided to the Due Process Oversight Committee (DPOC)	Actions
The Interpretations Committee sets an effective date for the Interpretation, considering the need for effective implementation.	Required.	Effective date has been set, with full consideration of the implementation challenges.	The DPOC has been informed of any proposed shortening of the period for effective application before the Interpretation is released.	As outlined in this paper.
Ratification of an Interpretation by the Board.	Required.	The Board has discussed the Interpretation at a public meeting.	The DPOC has been informed of the Board’s discussions, including whether any Board members will dissent from the Interpretation.	Planned for the first quarter of 2017. A copy of this paper will be sent to the DPOC.
Drafting				
Drafting quality assurance steps are adequate.	Required.	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps followed before the Interpretation is issued.	To be undertaken as part of the balloting process.
Drafting quality assurance steps are adequate.	Required.	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps followed before the Interpretation is issued.	To be undertaken as part of the balloting process.
Drafting quality assurance steps are adequate.	Optional.	The Editorial team has been included in the review process. In addition, external reviewers have been used to review drafts for editorial review and the comments have been collected and considered by the Interpretations Committee.	The DPOC has received a summary report of due process steps followed before the ED is issued, including the extent to which external reviewers have been used in the drafting process.	To be undertaken as part of the balloting process.
Drafting quality assurance steps are adequate.	Optional.	Review draft has been made available to members of the International Forum of Accounting Standard-Setters (IFASS) and comments have been collected and considered by the Interpretations Committee.	The DPOC has received a summary report of the due process steps followed before the Interpretation is issued.	To be undertaken as part of the balloting process The DPOC will be sent a copy of this Agenda paper.

<i>Step</i>	<i>Required or Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to the Due Process Oversight Committee (DPOC)</i>	<i>Actions</i>
Publication				
Interpretation is issued.	Required.	Official release.	The DPOC has been informed of the release.	To be issued when the balloting process is complete.
Press release to announce final IFRS Standard.	Required.	Release has been announced in a timely fashion. Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	To be agreed at a later date.