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Ms Patrina Buchanan
International Accounting Standards Board
1st Floor
30 Cannon Street
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Our ref MV/288

23 September 2016

Dear Ms Buchanan

Tentative agenda decision: IAS 12 – Expected manner of recovery of indefinite life intangible assets when measuring deferred tax

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (Committee) tentative agenda decision, *IAS 12 Income Taxes – Expected manner of recovery of indefinite life intangible assets when measuring deferred tax* (IFRIC Update July 2016). We have consulted with, and this letter represents the views of, the KPMG network.

Although we agree with the Committee's decision not to add this issue to its agenda, we disagree with the rationale and the decision to prohibit the application of guidance in paragraph 51B of IAS 12 by analogy to non-amortisable intangible assets.

We believe that the principles behind the guidance in paragraph 51B of IAS 12 (as outlined in paragraph BC6 of IAS 12) may be applied to non-amortisable intangible assets for the following reasons.

- Similar to depreciation of tangible assets, amortisation of intangible assets is intended to reflect the pattern of consumption of the asset through use.
- Similar to land, an indefinite life intangible asset, such as a licence with unlimited term, is used in generating cash flows.
- Arguably, in both cases there is no foreseeable limit to the period over which they can generate net cash flows. Therefore, the assumption is that neither asset is consumed through use in generating the future economic benefits and neither asset is depreciated or amortised.
- Applying the rationale in paragraph BC6 of IAS 12 – i.e. because an asset is not depreciated, no part of its carrying amount is expected to be recovered (i.e. consumed) through use – we believe that in the absence of other facts and

circumstances, because no part of the licence is amortised, it may be argued that no part of its carrying amount is expected to be recovered (i.e. consumed) through use.

We note that the Committee's conclusion was based solely on the comparison of the terms 'infinite' vs 'indefinite' rather than on the analysis of the similarities and differences between non-amortisable intangible assets (e.g. licence with unlimited term) and non-depreciable property plant and equipment measured using the revaluation model (e.g. land) from the economic point of view. We believe that the consideration of this issue should have involved an analysis of the concept of 'non-depreciable' rather than be based on the comparison of words in *an example* in paragraph BC6 of IAS 12 (unlimited) and a statement in paragraph 91 of IAS 38 that the term 'indefinite' does not mean 'infinite'.

We urge the Committee to amend the agenda decision:

- not to prohibit the application of paragraph 51B of IAS 12 by analogy to non-amortisable intangible assets; and
- either answer the question posed – i.e. how to determine the expected manner of recovery of an indefinite life intangible asset for the purposes of measuring deferred tax – or explain why it cannot answer this question – e.g. that this requires judgement in each particular set of circumstances.

Please contact Mark Vaessen +44 (0)20 7694 8871 or Sanel Tomlinson + 85 221 43 8694 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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