

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom

May 14th 2012

RE: IAS 12 Recognition of Deferred Tax for a single asset in a corporate entity

Dear Mr Upton,

I am writing on behalf of the European Public Real Estate Association (EPRA) on the topic of *recognition of deferred tax for a single asset in a corporate entity*, to be discussed in the May 15th and 16th IFRIC meeting.

EPRA represents European listed real estate companies that actively own, manage and develop real estate. Together our 200 members represent over 250 Billion Euros in real estate assets. EPRA actively responds to policy issues affecting our members including numerous IASB/FASB comment letters such as Leases, Revenue, Fair Value Measurement and Income Taxes.

Requirement to recognise deferred tax both on the shares and underlying asset

We understand that it is the IFRS Interpretations Committee's intention to propose clarification to the effect that where companies hold shares in a corporate entity with a single asset (e.g. investment property) the parent would be required to recognise deferred tax on both the shares in the corporate entity and the underlying asset. This includes additional wording to IAS 12 (para 38a in staff paper) that 'temporary differences associated with the carrying amount of investments in subsidiaries... are in addition to the temporary differences related to the assets and liabilities held by those subsidiaries... This standard requires an entity to recognise deferred tax assets and deferred tax liabilities on both sets of temporary differences, unless a specific exemption applies'. In addition, the staff propose an illustrative example and further wording to clarify this treatment.

Whilst we understand the Committee's intention to minimize divergence and remove management intentions from the assessment of deferred tax, we believe this would result in deferred tax disclosure that would not provide relevant information to users and undermine the usefulness and relevance of information in the financial statements.

In many European jurisdictions the tax on sale of shares differs significantly from the tax that would arise on sale of the underlying assets. In some countries (e.g. Sweden, Belgium) virtually all property transactions are done on the basis of share sales. Requiring companies to recognise tax on both the sale of the shares and the underlying asset we believe would result in recognition of a liability that will never be payable.

We believe that such recognition goes against the principle in IAS 12 that deferred tax should reflect the expected method of realisation of the asset. The staff paper seems to argue that this can

be justified on the basis that it is *'inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods'*. However, this does not address the question - what is the substance of the asset (the shares in the corporate wrapper or the property held within it)? It is clear in our view that the asset is not the shares in the corporate wrapper, which exists for specific legal reasons or to reduce the tax liability. The proposal would require property groups to effectively recognise tax on two assets (the shares and property), which are in substance the same.

We strongly urge the staff to avoid adding any further clarification which we believe could result in a further distortion of the deferred tax amounts recognised for some companies and would narrow the scope for taking into account different tax rules and market practices that apply in different jurisdictions. This would result in recognition of deferred tax that has little meaning to investors. For example, REITs (property companies with a special tax status) are generally exempt from corporation tax on sales of investment property but not on sales of shares in corporate vehicles. We are concerned that the proposed clarification would result in REITs recognising deferred tax, which would appear completely nonsensical and could confuse users.

We would urge the IASB to amend IAS 12 to reflect the expected manner of economic recovery and recognise that where tax rules specify that tax is based on the expected manner of recovery and/or the commercial substance of the transaction, that the liability should be recognized accordingly.

We welcome the opportunity to discuss this issue further with you and look forward to answering your questions.

Please contact Gareth Lewis, EPRA's Director of Finance, at gareth.lewis@epra.com (+32 2739 1014), or Mohamed Abdel Rahim, EPRA Financial Reporting Manager, at mohamed.abdelrahim@epra.com (+32 2739 1010) should you have any related questions.

Respectfully submitted,



Gareth Lewis

EPRA Finance Director