SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

August 27, 2012

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

RE: Exposure Draft ED/2012/1 – Annual Improvements 2012

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond the Exposure Draft ED/2012/1 – Annual Improvements 2012.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Overall, we agree with the proposals included in the Exposure Draft, which we believe will achieve the Board intention to clarify certain matters. Thus, our responses to the specific questions are:

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Yes, we agree with the Board´s proposal. However, we do have some specific concerns listed below.

Question 2

Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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Yes, we agree with the proposed transitional provisions and effective date for the issues described in the exposure draft.

Nevertheless, we have the following specific comments:

1) IFRS 3 – Business Combinations: We would like to suggest that the Board consider including the conclusions reached at the Interpretation Committee Potential Agenda Item Request – IFRS 3 B55, which also covered contingent consideration matters.

2) IFRS 8 – Operating Segments: We would like to suggest that the Board consider including the conclusions reached at the Post Implementation Review (PIR) of IFRS 8 occurred in 2012 in Brazil.

3) IAS 1 – Presentation of Financial Statements – Although we agree with the proposed change of classification of a liability as non-current, we would like to request additional guidance to the Board in relation to debts listed in a public market under renegotiation. The proposed change indicates that a loan facility must have the same lender and similar terms to qualify for application of the revised proposal. However, there might be some facilities in certain jurisdictions that can be transferred to other lender/investors. In such specific case, does the Board understand that the revised IAS 1 provision would or would not be applicable?

   In addition, we believe that if a debt arrangement is renegotiated after year-end (e.g. a waiver was obtained for a covenant default), but before the release date of the financial statements, should be classified as non-current liability at year-end in order to provide meaningful information to the users of the financial statements. In many cases, entities realize that they are in default after the preparation of the financial statements, thus after year-end, and immediately request a waiver to the counterparty, obtaining such waiver before the release date of the statements. Classifying the debt as a current liability, and disclosing the waiver in a subsequent event note may not be fully meaningful for the user of the information in this specific scenario, and in fact, will provide incorrect and misleading information to such user. We kindly request that the Board reassess such issue as part of the Annual Improvement process.

4) IAS 12 – Income Taxes – We also agree with the proposed changes, mainly the first one that is related to deductible temporary differences analysis, and the second one related to taxable profit basis for analysis. However, the third proposal of change related to the definition of a tax planning opportunity, which would be only the ones that creates or increases taxable profit according to the revised standard, seems to be very strict. We believe that a tax planning could also involve the reversal of certain temporary differences. For example, in Brazil, the deductibility of goodwill amortization is allowed by the income tax rules only after the merger of the acquirer into the acquiree, or vice-versa. We understand that said situation would qualify as a tax planning opportunity under IAS 12. Therefore, we request that the Board analyze the definition of tax planning opportunity in the Annual Improvements document.

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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Another issue that is not addressed in the Exposure Draft, but it is quite relevant in Brazil is related to the recognition of a deferred income tax liability on deemed cost of property, plant and equipment in case the entity is under the presumed income tax rule. Presumed income is a Brazilian tax scheme applicable for entities with total annual revenues under BRL48 million. Taxable income is determined by the application of a fixed tax rate on net revenue. In such scheme, entities are not allowed to have tax deductions, and, therefore, temporary differences do not arise. However, in case of eventual disposal of the property, plant and equipment, the net result on this transaction is taxed as a capital gain (if a gain exists), and the regular tax rate and income tax computation method is applicable. Considering the going concern basis, on which the entity will remain being taxed in the presumed profit scheme, and the asset will probably not be disposed of, should the entity record deferred income tax on the deemed cost difference? Important to note that the deemed cost adjustment is not deductible. Although this is a regional issue, it is possible that other jurisdictions present the same problem, reason why we kindly request that the Board consider including some consideration on this issue in the revised IAS 12 pronouncement.

5) Overall disclosure requirement: Even though disclosures are not being addressed in the Annual Improvement 2012 Exposure Draft, we would like to suggest that the Board continue the analysis of disclosure requirements in order to achieve the best balance between user and preparer´s needs for future discussions and Annual Improvement processes.

If you have any questions about our comments, please contact Mr. Idésio da Silva Coelho Júnior (operacoes@cpc.org.br), Deputy Chair of International Affairs and coordinator of a working group constituted to study any proposal issued by the IASB.

Yours sincerely,

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)