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ESMA sets out expectations regarding application of IAS 12

1.0 Background

The European Securities and Markets Authority (ESMA), has published on 15 July 2019 a [Public Statement on IAS 12 Income Taxes](#), setting out its expectations regarding the application of the requirements relating to the recognition, measurement and disclosure of deferred tax assets (DTAs) arising from unused tax losses in International Financial Reporting Standards (IFRS) financial statements.

The publication of this Public Statement comes after ESMA listed the recognition and measurement of DTAs as a common enforcement priority for the 2014 financial statements¹ and the following 2015 Activity Report² in which significant shortcomings in the evidence to support recognition of DTAs were identified. In addition, the Malta Financial Services Authority (MFSA) published a Circular on 28 March 2019 regarding the recognition of DTAs and the trend of losses by local Issuers³.

2.0 Rationale

This Public Statement focuses on the salient matters that issuers, auditors and audit committees should consider when recognising DTAs in their financial statements. These emanate from the findings and discussions of the European Enforcers Coordination Sessions (EECS). Several cases highlighted that significant divergence exists in the application and enforcement of the requirements on deferred tax losses arising from unused tax losses carried forward. This Public Statement serves as a means to promote consistent application of IFRS across the European Union.

The main topics presented in the Public Statement include the assessment of the probability that future taxable profits will be available, as assessed through paragraph 36 of IAS 12; the assessment on whether the expectations of future taxable profits have convincing supporting evidence, as per paragraph 35 of IAS 12; and disclosures.

The application of the requirements set out in IAS 12 will continue to be monitored by ESMA and National Competent Authorities whilst also considering the matters presented in this Public Statement when performing examinations of financial statements.

¹ ESMA/2014/1309 European common enforcement priorities for 2014 financial statements, 28 October 2014

² ESMA/2016/410, 2015 Activity Report on Enforcement and Regulatory Activities of Accounting, 29 March 2016

³ Enforcement of Financial Information IAS 12: Income Taxes – Recognition of Deferred Tax Assets, 28 March 2019

Contacts

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