



Our Ref.: C/FRSC

**Sent electronically through the IASB Website ([www.ifrs.org](http://www.ifrs.org))**

14 November 2019

Mr Hans Hoogervorst  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Hans,

**IASB Exposure Draft ED/2019/05 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)***

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

The HKICPA supports the proposed amendments in clarifying the diversity in practice caused by differing views on whether a company is required to apply the recognition exemption when it accounts for leases.

However, to help understand, we consider the IASB should supplement the proposed amendments to IAS 12 with examples/guidance to illustrate:

- application of the main requirements, for example similar to those in the Appendix of the IASB's educational material [In brief: Deferred Tax related to Assets and Liabilities arising from a Single Transaction](#); and
- accounting for deferred tax if a lease modification takes place (including adding or terminating the right to use one or more underlying assets, and extending or shortening the contractual lease term).

We also suggest the IASB explains how the proposed amendments, would apply to leases when an entity applied the cumulative catch-up approach on transition to IFRS 16. An entity might have recognised either equal or unequal assets and liabilities for leases at the date of initial application (1 January 2019), by applying paragraph C8 of IFRS 16 (in the case where the entity would have recognised an equal asset and liability at the commencement date of the lease had it applied IFRS 16 retrospectively).

In addition, the existing wordings in paragraph BC18 of the ED (advance lease payments and payments of initial direct costs) are unclear and we suggest the IASB should add further elaboration in the final basis for conclusions for better understanding. For example, specify which existing requirements in IAS 12 apply to any taxable differences arising from such payments and in particular whether the initial recognition exemption would apply.

**Work undertaken by HKICPA in forming its views:**

The HKICPA:

- (a) issued an Invitation to Comment on the ED on 25 July 2019 to our stakeholders;
- (b) sought input from its Taxation Advisory Panel comprising technical and industry experts and auditors from accounting firms; and
- (c) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder feedback. The Committee comprises of academics, preparer representatives from various industry sectors, investors, regulators, and technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact me or Anthony Wong, Associate Director in the Standard Setting Department ([anthonylwong@hki CPA.org.hk](mailto:anthonylwong@hki CPA.org.hk)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg', is positioned above the printed name and title.

Christina Ng  
Director, Standard Setting