

HKAB’s Comments on IASB Exposure Draft International Tax Reform — Pillar Two Model Rules (Proposed amendments to IAS 12)

Request for Comments / Relevant Extract	HKAB Comments
Questions for Respondents	
Question 1 – Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)	
<p>IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.</p> <p>The IASB proposes that, as an exception to the requirements in IAS 12, an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.</p> <p>The IASB also proposes that an entity disclose that it has applied the exception.</p> <p>Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB’s rationale for this proposal.</p> <p>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.</p>	<p>We agree with the proposed amendment as the calculation of deferred tax is not yet well defined under the existing regulations. An exception for recognizing the deferred taxes related to Pillar 2 can reduce any unclarities in the financial statements.</p>
Question 2 – Disclosure (paragraphs 88B–88C)	
<p>The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity disclose for the current period only:</p> <p>(a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.</p> <p>(b) the jurisdictions in which the entity’s average effective tax rate (calculated as specified in paragraph 86 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.</p> <p>(c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:</p>	<p>We agree that in principle, the proposed disclosure requirements can provide the users of financial statements with the estimated impact of Pillar Two legislation. However, we would like to seek further guidance/ clarification from the IASB in the following areas:</p> <p>We acknowledge the minority view in BC22, and consider that there may initially be diversity in disclosures on this topic as practice develops. As the purpose of the temporary exception is to give relief from the interpretation challenges of applying IAS 12 to the Pillar Two legislation, we would caution against contradicting this goal through disclosures requiring similar interpretations. In particular:</p> <ul style="list-style-type: none"> • It is unclear the level of detail envisioned for paragraph 88C(a). Particularly, what is expected by “information about such legislation

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<p>(i) identified in applying the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or</p> <p>(ii) not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.</p> <p>The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.</p> <p>Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB’s rationale for this proposal.</p> <p>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.</p>	<p>enacted”; e.g., is a detailed description of the mechanism by which the legislation works required? Or could this simply be noting a list of jurisdictions where the Pillar Two legislation has come into effect?</p> <ul style="list-style-type: none"> • The proposed disclosure in paragraph 88C(c) is drafted such that it may be interpreted that the only requirement here is for an entity to disclose “yes” or “no” to whether the entity has identified the jurisdictions in paragraph 88C(c)(i)-(ii). It is unclear whether this is the intention, or whether the IASB intends the entity to disclose further information about those jurisdictions (e.g. identifying which jurisdictions those are). • The proposed disclosure of current tax expense (income) related to Pillar Two income taxes also face interpretation challenges including which entity would need to make these disclosures (given the entity which causes the tax liability might not be the entity which is liable to pay it). <p>In addition, we suggest that the IASB providing illustrative examples for the requirement in 88C. Based on BC19 and BC 24, we also suggest that 88C could be amended as “In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity shall disclose, without undue cost or effort, for the current period only...”.</p>
Question 3 – Effective date and transition (paragraph 98M)	
<p>The IASB proposes that an entity apply:</p> <p>(a) the exception—and the requirement to disclose that the entity has applied the exception—immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;</p> <p>and</p> <p>(b) the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.</p> <p>Paragraphs BC27–BC28 of the Basis for Conclusions explain the IASB’s rationale for this proposal.</p> <p>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.</p>	<p>We agree with the proposed amendment as the amendments can clearly reflect the potential impact of income taxes related to Pillar Two to the readers of financial statements.</p>

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Other Comments on the Exposure Draft	
BC1 to BC7	The Basis for Conclusions proposed in the Exposure Draft includes some discussion on the operational details of Pillar II, which seems to be more related to tax law than to accounting standards. We are doubtful whether this detail is necessary to incorporate into IFRS. In general, we think trying to summarise tax law (or other legislation) within IFRS may create the risk of misinterpretation of the law and/or subsequent obsolescence as the cited legislation evolves.
Footnote 1 in BC1: See further information at https://www.oecd.org/tax/beps/international-community-strikes-aground-breaking-tax-deal-for-the-digital-age.htm .	The footnote in BC1 seems inappropriate given it is merely a press release. Further, we generally disagree with the practice of inserting hyperlinks (particularly those not of the IFRS Foundation) into IFRS Standards given the potential for subsequent obsolescence if the website linked to changes.
Other general comments	Current drafting defines ‘Pillar Two model rules’ in the Basis for Conclusions (BC1). We would expect new terms to be firstly defined in the body of the Standard. We suggest consistency can be checked against other standards, for example, IFRS 9.6.8.2 temporary exception defines the term ‘interest rate benchmark reform’.