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6 March 2023

Dr Andreas Barckow  
International Accounting Standards Board  
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Canary Wharf  
London E14 4HD  
United Kingdom

Dear Andreas,

**IASB Exposure Draft**  
***International Tax Reform—Pillar Two Model Rules***  
**(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, ethics and sustainability disclosures for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

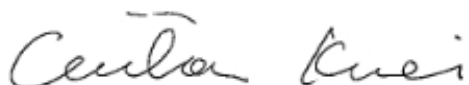
The HKICPA appreciates the IASB's efforts and timely response to the concerns of stakeholders about the implications for income tax accounting arising from the implementation of the Pillar Two model rules. Although the proposals in the ED do not provide a comprehensive solution to fully address this issue, we agree that the ED serves as a practical interim solution before further work is performed to determine how entities should apply IAS 12 to account for deferred tax related to the Pillar Two model rules. Nevertheless, we have suggested some improvements that could help to clarify the proposals in the Appendix to this letter.

Given the timing at which some jurisdictions are expected to enact or substantively enact the Pillar Two model rules, the rules could impact interim and annual financial statements issued before the amendments are finalised. Hence, the timing at which the amendments will be published by the IASB is critical and we strongly urge the IASB to finalise the amendments as soon as possible.

In addition, considering that the ED does not specify how long the temporary exception would be in place for valid reasons, we recommend that the IASB schedule for activities in its work plan including monitoring the enactment process of the Pillar Two model rules in different jurisdictions, analysing their impact on financial statements and assessing whether additional standard-setting activities are required, so that the temporary exception could be terminated at the appropriate time and that the accounting for income taxes arising from the Pillar Two model rules could be clarified.

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

Sincerely,



Cecilia Kwei  
Director, Standard Setting Department

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

The HKICPA:

- (i) issued an Invitation to Comment on the ED on 10 January 2023 to its members and other stakeholders;
- (ii) sought input from its Income Tax/Deferred Tax Advisory Panel which is mainly comprised of technical and industry experts from accounting firms; and
- (iii) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder views. The Committee comprises preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

### **Detailed comments on ED**

#### **Question 1—Temporary exception to the accounting for deferred taxes**

We agree with the IASB's proposal to provide a mandatory temporary exception to the requirements in IAS 12 under which an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

We acknowledge that entities need time to determine how to apply the principles and requirements in IAS 12 to account for deferred taxes related to top-up tax, which in turn depends on how jurisdictions implement the Pillar Two model rules. The IASB also needs time to engage further with stakeholders and consider whether any action is needed to support the consistent application of IAS 12. Consequently, we agree with the IASB's proposal for not specifying how long the temporary exception would be in place in view of the time needed to monitor the development of the issue.

Having said that, we recommend that the IASB schedule for activities in its work plan, including monitoring the enactment process of the Pillar Two model rules in different jurisdictions, analysing their impact and assessing whether additional standard-setting activities are required, so that the temporary exception could be terminated at the appropriate time and that the accounting for income taxes arising from the Pillar Two model rules could be clarified.

#### **Question 2—Disclosure**

Most of our respondents agree with the proposed new disclosures. A few respondents questioned the reliability and usefulness of the information to be provided under the proposals. These respondents are concerned that any impact assessment entities make at this stage could only be based on information that is not yet certain (for example, profit forecasts of different operations, the evolving Pillar Two model rules and how different jurisdictions enact the legislation). Hence, they are concerned that the disclosures under paragraph 88C could be misleading and there could be legal implications to the entities if the disclosures made by them are not the same as the actual outcome.

Furthermore, we consider that the following areas can be clarified by means of guidance or illustrative examples to avoid inconsistent application of the proposals:

- (i) We understand that the ED focuses on addressing the stakeholders' concerns on the accounting for deferred taxes in the consolidated financial statements of the ultimate parent entity of a group subject to the Pillar Two model rules. However, this is not clear to our respondents. We consider that the IASB should clarify the scope of the ED if it intends to focus on addressing the issue in the context of consolidated financial statements.

In addition, our respondents questioned whether and how IAS 12 applies to top-up tax arising from the Pillar Two model rules outside the context of consolidated financial statements of the ultimate parent entity. For example, in the separate financial statements of the ultimate parent entity where the ultimate parent is liable to pay the top-up tax, but the tax was triggered by another entity of the group, the ED is not clear as to whether IAS 12 would apply to such case, and if so, which entity should make the proposed disclosures. Should they be made in the separate financial statements of the ultimate parent entity, the group entity that triggered the top-up tax or both? We suggest the IASB clarify this.



- (ii) Paragraph 88C(a) requires the disclosure of information about Pillar Two legislation enacted or substantively enacted in jurisdictions in which the entity operates. Our respondents consider that the ED is unclear as to the level of detail required for such proposal. Particularly, in respect of 'information about the Pillar Two legislation', it is not clear whether a detailed description of the mechanism through which the legislation works is required or whether disclosing a list of jurisdictions where the Pillar Two legislation has come into effect would suffice.
- (iii) A few respondents considered that there may be a practical difficulty in determining which jurisdictions should be disclosed under the proposed disclosure in paragraph 88C(b). Take for example an entity that is incorporated in the Cayman Islands and which does not have any operations there. The entity has an office in Hong Kong but the profit is not subject to tax in any jurisdiction in the world due to the application of double tax agreements and therefore has an effective tax rate of zero. It is not clear whether the entity should disclose Hong Kong or Cayman Islands under the proposed paragraph 88C(b) in this situation.
- (iv) Paragraph BC24(c) of the ED implies that the proposed disclosure in paragraph 88C(c) would be required only if entities have made the assessments in preparing to comply with the Pillar Two legislation. However, our respondents considered that clarification on the requirement is necessary, particularly whether a statement of fact is needed if entities have not made any assessments, and the level of detail expected for entities that have made the assessments (e.g. bases for the assessment and assumptions).

### **Question 3—Effective date and transition**

We support the proposed effective date and transition requirements for the reasons stated in paragraphs 27 – 28 of the Basis for Conclusions.

### **Other comments**

The ED currently defines the 'Pillar Two model rules' in the Basis for Conclusions (BC1) instead of in the body of the Standard (paragraph 4A). We consider that this term plays a pivotal role in the development of the proposals and should be defined in the body of the Standard. This can facilitate readers to understand the meaning of the term when they first come across it in the body of the Standard and is also consistent with the presentation in other standards, e.g. IFRS 9 *Financial Instruments* defines the term 'Interest Rate Benchmark Reform' in IFRS 9.6.8.2.

~ End ~