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**Via e-mail:** [commentletters@hkcipa.org.hk](mailto:commentletters@hkcipa.org.hk)

10 March 2023

Dear Sir/Madam,

**Re: Response to the International Accounting Standards Board (IASB) Exposure Draft International Tax Reform—Pillar Two Model Rules (Proposed amendments to IAS 12)**

The British Chamber of Commerce in Hong Kong would like to respond to the International Accounting Standards Board (IASB) Exposure Draft International Tax Reform—Pillar Two Model Rules (Proposed amendments to IAS 12). As a business chamber in Hong Kong, we are generally supportive of the introduction of the global minimum tax. However more details of the proposals for Pillar Two model rules are needed to clarify their impact.

In the below, we will comment on the proposals in the Exposure Draft that are particularly set out as Questions 1-3.

Question 1 - Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)

The British Chamber of Commerce in Hong Kong agrees with the IASB's proposal to provide an exception to the requirements of IAS 12, which precludes an entity from recognising or disclosing information about deferred tax assets and liabilities related to Pillar Two income.

Nevertheless, our constituents expressed mixed views regarding whether a qualified domestic top-up tax, computed based on the Pillar Two rules, should also be eligible for this exception.

Some members believe that application of an in-territory statutory minimum would be simpler to apply and that deferred tax is already calculated based on the normal statutory rate in that territory. Others, however, noted that many of the complexities arising from Pillar Two rules will still exist for qualified domestic top-up tax, including the need to consider future tax effects, and suggest that exempting these taxes should avoid diversity in practice in applying the IAS 12 requirements while maintaining comparability as the IASB develops further guidance.

## Question 2 - Disclosure (paragraphs 88B – 88C)

The British Chamber of Commerce in Hong Kong recognises the need for disclosures in this area, our members have below concerns about some of the requirements suggested in the draft rules.

It appears that the requirements are being considered largely from the perspective of the ultimate parent for the purposes of their consolidated financial statements. Nevertheless, in Hong Kong HKFRS, being the local equivalent of IFRS, is applied by all companies (unless they qualify as a SME). Accordingly, Hong Kong subsidiaries of groups that are subject to Pillar Two legislation will be required to provide the disclosures set out in paragraphs 88B and 88C and it is unclear how these should be applied in separate financial statements. We therefore recommend that the IASB provide additional guidance or illustrative examples to explain how these disclosures should be interpreted for the purposes of separate financial statements.

In addition, some constituents have noted that paragraph 88C may lead to comparisons that are unhelpful or even misleading to uninformed financial statement users. This risk arises because the disclosure for paragraph 88B may be based on different data and very different principles to that in paragraph 88C. For example, many multinational groups have undertaken a Pillar Two assessment using historical (2022) data but are unlikely to perform such an assessment for an interim period in 2023. Given that the paragraph 88B disclosure is based on 2023 current period data, this will create a mismatch in underlying data between 88B and 88C, rendering comparisons unhelpful or even meaningless. A similar issue could also arise for subgroups if the 88C Pillar Two assessment is undertaken at the ultimate parent level, whereas the sub-group's 88B disclosure is based on sub-group data.

We would also appreciate if IASB could understand the practical difficulty on the disclosure requirement and assessment as proposed under 88C of the Exposure Draft. Referring to OECD's Model Rules, the starting point for calculating the jurisdictional ETR is based on the financial information extracted from the consolidated account of the UPE. In other words, the jurisdictional data should tie with the consolidated figures after putting through various adjustments including but not limited to GAAP adjustments, currency conversion, group adjustment, etc. In practice, it takes auditors months to complete the yearly audit review before the annual report can be released. On the other hand, OECD recognizes the complication in calculating the ETR for Pillar Two and thus allow the in-scope taxpayer to submit the Pillar Two calculation within 15 months after the financial year end.

If IASB requires the in-scope taxpayer to make a disclosure in the financial statement on whether the jurisdiction is above or below the 15% minimum tax, it may imply the in-scope taxpayer is required to perform the ETR calculation no more than 3 months before the release of annual announcement, which can be challenging for in-scope MNE group (especially those with multi subgroups) and the calculation may not be that accurate as the figures used for ETR calculation are not audited. If the disclosure requirement proposal will not be removed, it is important that IASB provides more guidance on how work for disclosure purpose can be simplified.

We support the IASB's attempt to balance the cost and benefit of providing insights into an entity's potential exposure to paying top-up tax. We believe that the use of existing information, such as that used in preparing the reconciliation required by IAS 12.81(c), represents a reasonable compromise in achieving an appropriate balance.

Nevertheless, it is unclear whether this information is intended to be fully compliant with IFRS, including consolidation adjustments and inter-company eliminations, or whether it is acceptable to simply aggregate amounts reported (consistent with the use of "in aggregate" in paragraph 88C(b)). The former could introduce additional complexity, given consolidation adjustments are typically not made at a jurisdictional level, which could comprise components from multiple sub-groups and/or operating segments. In light of this complexity, and the fact that a simple aggregation would be more

closely aligned with the Pillar Two rules thus providing more relevant information, we recommend that the IASB allow entities to present a simple aggregation of information from each jurisdiction for disclosure purposes to the extent consolidated information is not readily available.

Question 3 – Effective date and transition (paragraph 98M)

The British Chamber of Commerce in Hong Kong agrees with the IASB's proposal that the exception should be applied immediately upon issue of the amendments and retrospectively in accordance with IAS 8.

Regarding the disclosures required by the amendment, as a business chamber in Hong Kong we believe there is a balance to be made between investors who may want fuller disclosure earlier and preparers, who may need more time to obtain the relevant information.

We therefore suggest that the earliest appropriate time to require disclosures should be set in respect of the end of the annual report period beginning on or after 1 January 2024 and the IASB should be clear that entities will not provide such disclosures in any interim financial statements.

Yours sincerely,



Ir Dr Anne Kerr

Chair  
The British Chamber of Commerce in Hong Kong