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

**Comments on the Exposure Draft *International Tax Reform—Pillar Two Model Rules*  
(Proposed amendments to IAS 12)**

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board (IASB) to develop high quality accounting standards and welcomes the opportunity to comment on the Exposure Draft *International Tax Reform—Pillar Two Model Rules (Proposed amendments to IAS 12)*.

Given that each jurisdiction will have limited time before the Pillar Two model rules are implemented and that the IASB will also need time to develop accounting requirements, JICPA agrees with the proposed amendments to IAS 12 *Income Taxes*, which propose introducing a temporary exception to the accounting for deferred taxes.

The Japanese government is moving towards a tax reform to implement the core parts of the Pillar Two model rules published by the OECD. By the end of March 2023, it is expected that top-up taxes could be in a position where they are considered to be ‘enacted or substantively enacted’ in Japan.

There are many Japanese entities adopting IFRS with 31 March representing their year-ends or quarter-ends. If the income tax reform is enacted or substantively enacted by the

end of March 2023, it is essential that those entities are able to apply the temporary exception proposed under the Exposure Draft in order to account for deferred tax assets and liabilities as of 31 March 2023.

With these in mind, we highly recommend the IASB carefully consider the timing and process to finalise the Exposure Draft.

The Exposure Draft includes disclosure requirements for the purpose of providing information to users of financial statements about the impact of applying top-up taxes (see paragraphs 88C, BC23, and BC24). We understand the general purpose of the disclosure is to present information on subsequent effects arising from top-up taxes. Given the urgency of the Exposure Draft, we propose the IASB put top priority on finalising the introduction of the requirement for temporary exception to the accounting for deferred taxes. Disclosure could be provided based on the existing requirement in paragraph 17(c) of IAS 1 *Presentation of Financial Statements*, under which entities are required to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Disclosure requirements proposed in the Exposure Draft can be separately discussed later as they do not seem to be closely related to the temporary exception proposed in the Exposure Draft.

Please see our comments to each Question in the following pages.

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

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.

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.

The IASB also proposes that an entity disclose that it has applied the exception.

Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

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.

**Comment:**

We agree with the proposal.

We believe entities would need time to determine the accounting for deferred tax assets and liabilities in accordance with IAS 12 once new tax laws are enacted to implement the Pillar Two model rules, given the complexity and other issues associated with the rules.

Further, we recommend the IASB develop a new guidance enabling entities to achieve a globally consistent accounting treatment, provided that the Pillar Two model rules will be implemented as part of an internationally-agreed framework provided by the OECD.

Each jurisdiction will have limited time before the Pillar Two model rules are implemented, causing extra strain for entities to determine an appropriate accounting treatment. The IASB will also need time to develop accounting requirements. In the light of such circumstances, JICPA agrees with the Board’s proposal to introduce a temporary exception to the accounting for deferred taxes. However, we suggest the Board consider the following regarding the timing to finalise the Exposure Draft.

(Comment on the timing to finalise the Exposure Draft)

The Japanese government is moving towards a tax reform to implement the core parts of the Pillar Two model rules published by the OECD. By the end of March 2023, it is expected that top-up taxes could be in a position where they are considered to be ‘enacted

or substantively enacted.’

There are many Japanese entities adopting IFRS with March year-ends. If the income tax reform is enacted or substantively enacted by the end of March 2023, it is essential that those March year-end entities are able to apply the temporary exception proposed under the Exposure Draft in order to account for deferred tax assets and liabilities as of 31 March 2023.

Moreover, the temporary exception for deferred taxes should also be available for Japanese IFRS reporting entities that prepare quarterly consolidated financial statements as of 31 March 2023, including December year-end entities, for the purpose of determining the expected weighted average annual effective tax rate in accordance with paragraph 30 of IAS 34 *Interim Financial Reporting*.

If the Exposure Draft cannot be finalised before the publication of IFRS annual financial statements for the fiscal year ending 31 March 2023, or IFRS quarterly financial statements for the period ending 31 March 2023, then those entities will have to separately consider accounting treatments in accordance with IAS 12. In such cases, not only undue burden will be put on entities affected by the Japanese taxation as well as their stakeholders, including auditors, but also comparability issues between financial statements may arise. We are afraid the aim of the Exposure Draft cannot be achieved sufficiently under such circumstances.

Accordingly, we highly recommend the IASB carefully consider the timing and process to finalise the Exposure Draft from the perspective of pursuing the original goal of the Exposure Draft.

The Exposure Draft includes disclosure requirements for the purpose of providing information to users of financial statements about the impact of applying top-up taxes (see paragraphs 88C, BC23, and BC24). We understand the purpose of the disclosure is to present information on subsequent effects arising from top-up taxes, not just focusing on the impact of deferred taxes subject to the exemption. Given the urgency of the Exposure Draft, we propose the IASB put top priority on finalising the introduction of the requirement for temporary exception to the accounting for deferred taxes. Disclosure could be provided based on the existing requirement in paragraph 17(c) of IAS 1, under which entities are required to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance. Disclosure requirements proposed in the Exposure Draft can be separately discussed later as they do not seem to be closely related to the temporary exception proposed in the Exposure Draft.

**Question 2—Disclosure (paragraphs 88B–88C)**

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:

- (a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.
- (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.
- (c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:
  - (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
  - (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.

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.

Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

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.

**Comment:**

**Disclosure of information on periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect**

**Comment to proposal (a)**

We think it is not reasonable in requiring entities to disclose information about Pillar

Two legislation enacted or substantively enacted in jurisdictions in which they operate, as proposed in (a), because the cost of disclosing such information may outweigh the benefit under the following circumstances: Pillar Two legislation is a piece of information that will be available in each jurisdiction over the next year or two and is not expected to differ significantly among entities; and multinational companies will have to disclose a massive amount of information to comply with the requirement, which could be impractical for them.

### **Comment to proposals (b) and (c)**

Although the disclosures proposed in (b) and (c) could be a useful information to some extent, we are afraid the cost to prepare the required information may outweigh the benefits if the information on which the disclosure is based is not predictable, such as in the following cases:

- According to paragraph 88C(b) of the Exposure Draft, it is required to disclose information based on an entity's average effective tax rate calculated as specified in paragraph 86 of IAS 12. However, such average effective tax rate would be different from the tax rate computed in accordance with the Pillar Two model rules. As a result, it might turn out that the information is not useful enough for the purpose of projecting future top-up taxes.
- Before the Pillar Two model rules become effective, entities may change their business operations in some jurisdictions, considering the tax burden put on them, including the payment of top-up taxes. Furthermore, income tax rates may increase or tax laws may change in other jurisdictions. Accordingly, the information provided for periods before the Pillar Two model rules become effective might not be feasible as a projection for future top-up tax payments.
- The current IAS 12 does not require entities to disclose income tax information by jurisdiction. That said, it is expected that entities would need a reasonable amount of preparation time to gather information by jurisdiction once the Pillar Two model rules are in effect, which shall be taken into account when preparing disclosure information.

### **(Proposing the disclosure requirements as amendments to IAS 12)**

If many comments are received on the disclosure requirements proposed in the Exposure Draft, it will take a while for the IASB to finalise the amendments to IAS 12. On the other hand, little time is left for entities to comply with paragraph 88C of the Exposure Draft, which requires entities to disclose information for a specified period in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect.

Based on above, instead of amending IAS 12, JICPA believes it would be more practical if entities are allowed to refer to the existing requirement in paragraph 17(c) of IAS 1, under which entities are required to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. If needed, other disclosure requirements could be separately discussed later.

**Separate disclosure of information on an entity's current tax expense (income) related to Pillar Two income taxes in periods in which Pillar Two legislation is in effect**

JICPA agrees with the IASB's proposal.

**Question 3—Effective date and transition (paragraph 98M)**

The IASB proposes that an entity apply:

- (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*; and
- (b) the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.

Paragraphs BC27–BC28 of the Basis for Conclusions explain the IASB's rationale for this proposal.

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.

**Comment:**

We agree with the proposals, both (a) and (b).

(a)

As illustrated in the first page of our comment letter, tax laws to implement the Pillar Two model rules could be enacted or substantively enacted in Japan by the end of March 2023. Given that limited time is available until the rules are to be implemented, the

temporary exception would need to be available to entities immediately upon the issue of the amendment and retrospectively, including financial statements whose reporting date arrives before the issuance.

Yours faithfully,

Eriko Otokozawa

Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure

The Japanese Institute of Certified Public Accountants