

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Amendment IAS 12 - International Tax Reform - Pillar Two Model Rules Issues Paper**

### **Objective**

- 1 The objectives of this session are to:
  - (a) provide a summary of the feedback received by the IASB in response to the ED International Tax Reform - Pillar Two Model Rules Proposed amendments to IAS 12 ('the ED') as well as the IASB's decisions (verbal update only - the papers include IASB's Staff recommendation to be discussed by the IASB on 11 April 2023);
  - (b) inform EFRAG FR TEG members whether the comments included in [EFRAG's comment letter](#) have been addressed; and
  - (c) seek EFRAG FR TEG member views to inform the forthcoming preparatory draft endorsement advice.

### **Information for EFRAG FR TEG**

- 2 The EFRAG Secretariat has structured the agenda paper as follows:
  - (a) Temporary exception to deferred tax accounting;
  - (b) Targeted disclosures; and
  - (c) Transition provisions and any other comments.
- 3 For each of these aspects of the project, we include a high-level summary of the feedback received by the IASB, a description of the IASB's staff recommendations and the preliminary EFRAG Secretariat analysis where we mainly focus on whether EFRAG's comments as included in the Comment letter were addressed by the IASB staff papers.
- 4 The main IASB's staff recommendations are in bold type.
- 5 This Agenda Paper has been prepared prior to the 11 April 2023 IASB's meeting.

### **Temporary exception to deferred tax accounting**

*Summary of the feedback received by the IASB*

- 6 Almost all respondents agreed with the proposed temporary exception.
- 7 Almost all respondents also agreed that the temporary exception should be mandatory. A few respondents said the exception should be optional to allow entities to provide deferred tax information if they are able to do so.

- 8 Most respondents agreed with not specifying how long the temporary exception will be in place. However:
- (a) a few respondents suggested specifying how long the temporary exception would be in place or, at least, specifying the earliest date on which the IASB would reconsider the temporary exception.
  - (b) a few respondents said the exception should be permanent because recognising deferred taxes arising from Pillar Two legislation would be costly, complex and potentially misleading.
  - (c) a few respondents suggested:
    - (i) monitoring future developments related to the implementation of Pillar Two legislation in various jurisdictions; and
    - (ii) preparing and communicating a timeline and work plan for undertaking further work to determine whether to remove or make the exception permanent. A few respondents suggest prioritising such work.
- 9 Some respondents emphasised the importance of maintaining convergence with US GAAP on this matter. These respondents noted the FASB staff response to a technical inquiry on the matter and suggested working together with the FASB and other national standard-setters.
- 10 Many respondents appreciated the IASB's responsiveness and the timeliness in addressing the matter. Many respondents also reiterated the urgency of finalising the proposed amendments, particularly because jurisdictions may imminently enact or substantively enact Pillar Two legislation.

#### Scoping

- 11 Some respondents said the statement included in paragraph 4A of the ED is ambiguous and some respondents said it is unclear whether top-up taxes are income taxes (and thus are in the scope of IAS 12) in some situations, including outside an ultimate parent entity's consolidated financial statements.
- 12 To improve consistency in the accounting for top-up taxes—including consistency in whether the disclosure requirements proposed in the ED would apply—some respondents suggested either:
- (a) providing further clarification or guidance to help an entity determine whether top-up taxes are income taxes; or
  - (b) specifying that all top-up taxes are in the scope of IAS 12.
- 13 A few respondents say it is unclear whether and how the temporary exception would affect the accounting for deferred taxes arising under domestic tax regimes (domestic deferred taxes).

#### Disclosure requirements in paragraph 88A of the ED

- 14 Some respondents said the proposed disclosure requirement would be unnecessary because the temporary exception is mandatory. Therefore, such disclosure would not provide any information not already covered by an entity's statement of compliance with other IFRS Standards.
- 15 However, some other respondents explicitly agreed with the proposed disclosure requirement, saying disclosing this information would provide clarity and transparency that an entity has applied the exception.

- 16 A few respondents suggested requiring instead that an entity disclose whether it expects to be affected by the Pillar Two model rules.

*Description of the IASB's staff recommendations*

- 17 Based on the feedback received, the **IASB Staff recommended that the IASB finalises its proposals as included in the ED, introducing a temporary and mandatory exception to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes with not specifying how long the temporary exception will be in place.**
- 18 Furthermore, regardless the IASB acknowledged stakeholders concerns about the scope, **the IASB Staff recommended no change to the scope of the exception** (i.e., paragraph 4A of the ED). In particular:
- (a) With reference to the concerns about determining whether top-up taxes are income taxes, the IASB's Staff clarified that, when drafting paragraph 4A of the ED, the IASB's intention was to state that IAS 12 applies to income taxes arising from Pillar Two legislation (that is, for those top-up taxes arising from Pillar Two legislation that are income taxes). The IASB will consider clarifying the wording of paragraph 4A of the ED and any related discussion in the Basis for Conclusions when drafting final amendments.
  - (b) Providing further clarifications or guidance to help entities assess the situations in which top-up taxes are income taxes would require significant additional technical analysis to avoid unintended consequences. Therefore, it would be not possible to do so without delaying the finalisation of the amendments.
  - (c) With reference to the concerns about the remeasurement of the domestic deferred taxes, the IASB Staff suggested there is no need to change the scope of the exception covering the (re)measurement of domestic deferred taxes as it applies only to deferred taxes related to Pillar Two income taxes.
- 19 In addition, the IASB Staff acknowledged that, considering that not all entities are in the scope of the Pillar Two model rules or are exposed to paying top-up taxes, the disclosure in paragraph 88A of the ED would make the application of the exception clear and transparent. However, **the IASB Staff recommended not finalising the proposal to require an entity to disclose that it has applied the temporary exception** for the following reasons:
- (a) an entity would already be required to provide information about its exposure to Pillar Two income taxes when applying the proposed targeted disclosure requirements (see section 'Targeted Disclosures').
  - (b) To be consistent across the Standard not requiring specific disclosure when other exceptions apply (e.g., the exceptions in paragraphs 15 and 24 of IAS 12).
  - (c) IAS 1 requires an entity to disclose material accounting policy information and provides specific requirements an entity applies in determining what information to provide.
- 20 Finally, **the IASB Staff continued to agree that the exception should mandatorily apply to disclosure requirements** for the same reasons it applies to recognition requirements (e.g., to ensure comparability and eliminate the risk that entities inadvertently develop accounting policies that are inconsistent with the principles and requirements in IAS 12).

*EFRAG Secretariat preliminary analysis based on IASB staff papers*

- 21 The feedback received by the IASB and the subsequent further analysis provided for by the IASB Staff are consistent with the main recommendations included in EFRAG's comment letter with reference to this topic.
- 22 The EFRAG Secretariat generally agrees with the IASB Staff recommendations. In particular:
  - (a) With reference to the concerns about the scoping, the EFRAG Secretariat acknowledges that developing additional guidance to assess whether top-up taxes are income taxes could delay the issuance of the amendments.
  - (b) With reference to the disclosure requirements in paragraph 88A of the ED, the EFRAG Secretariat welcomes the Staff recommendation as long as targeted disclosures are required to provide information about an entity's exposure to Pillar Two income taxes (see proposals in par. 37). In its comment letter, EFRAG suggested that the IASB clarifies the underlying rationale asking for such a specific disclosure, in view that this is an additional requirement compared to the general disclosure requirements in other IFRS Standards (e.g., IAS 1 Presentation of Financial Statements).  
;
  - (c) With reference to extending the exception also to the disclosure about potential deferred taxes, at this stage the EFRAG Secretariat agrees with the IASB Staff proposal mainly due to the uncertainty around the deferred tax computation. Indeed, whether an information was reliable for disclosing it should be reliable also for recognition.

### **Targeted disclosures**

*Summary of the feedback received by the IASB*

*Periods before legislation is in effect*

- 23 Many respondents disagreed (almost all preparers, many accountants and some standard-setters) with the proposals. In general, these respondents said that the proposed disclosures would not result in useful information and would require entities to incur significant costs to prepare that information. Conversely, many respondents (many accountants and standard-setters, all regulators and all investors) agreed with the IASB's proposals although they proposed some clarifications or improvements. Some respondents neither agreed nor disagreed but raised similar concerns to those who disagreed.
- 24 Respondents that disagreed with the proposals said that the information would not be useful because of:
  - (a) It could be a 'poor proxy' of an entity's Pillar Two exposure; and
  - (b) It would have low or no predictive value and could be misleading.
- 25 Many of the respondents said that this is because of the differences between the basis for calculating the effective tax rates applying IAS 12 and the Pillar Two requirements. Some respondents also said that the information required by paragraph 88C(b) of the ED would not be useful because:
  - (a) it would not reflect mitigating actions an entity may take to reduce its exposure;
  - (b) an entity's effective interest rate ('ETR') in future periods may differ from the current period ETR;

- (c) domestic legislation may change as a result of Pillar Two rules; and
  - (d) there could be differences in legislation enacted in each jurisdiction and further OECD guidance in the future.
- 26 Many respondents said that preparing the information required by paragraph 88C(b) would be costly and result in additional administrative burden. The proposals would require entities that do not report information by jurisdictions to set up systems, create new processes to collect and prepare the required information at a jurisdictional level and have the information audited. Respondents said that such costs would not be justified because an entity would provide the information in only one or two reporting periods.
- 27 Some respondents suggested that, instead of requiring an entity to disclose specific information based on IAS 12, the IASB could require entities to disclose information that meet a disclosure objective which would be based on the explanations included in the basis for conclusions of the ED.
- 28 Some respondents, including some of those that suggested including a disclosure objective, suggested requiring an entity to disclose information based on assessments the entity had made. They said that such an approach would result in an entity providing more useful, entity-specific information without undue cost or effort because the information would be based on assessments the entity has already made.
- 29 Respondents expressed different views about the specific information the IASB should require an entity to disclose. They suggested:
- (a) requiring an entity to disclose an estimate of potential Pillar Two income taxes or the expected increase in the entity's effective tax rate;
  - (b) Similarly, to paragraphs 30-31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, requiring an entity to disclose only known or reasonably estimable information relevant to assessing the effects of Pillar Two legislation. If that effect is not known or reasonably estimable, an entity would disclose a statement to that effect;
  - (c) requiring entities to disclose only qualitative information; and
  - (d) requiring entities to disclose the information required by proposed paragraphs 88C(b)-(c) when an entity cannot provide information based on the Pillar Two model rules.

*Periods when legislation is in effect*

- 30 Most respondents agreed with the proposal. However, some respondents—mostly preparers—either disagreed or questioned whether such a requirement is necessary or would result in useful information. They noted that this information would not be useful or it would already be disclosed as part of other IAS 12 requirements (effective tax rate reconciliation or when disclosing major components of tax expense separately).

*Description of the IASB's staff recommendations*

*Periods before legislation is in effect*

- 31 Feedback from the IASB's respondents suggested that more entities might be able to disclose available Pillar Two-based information than the IASB expected when it developed its proposals. Therefore, the IASB's staff considered that an entity should be allowed to disclose Pillar Two-based information instead of IAS 12-based information to the extent the information is available.

- 32 In the IASB's staff view, the IASB should not prescribe the basis on which to prepare the Pillar Two-based information (for example, the information might not need to comply with all Pillar Two requirements to be useful or could be useful even if provided in the form of an indicative range).
- 33 The IASB's staff agreed with suggestions to specify a disclosure objective. In their view, doing so would allow an entity flexibility in disclosing information that best meets the disclosure objective but without resulting in undue cost or effort.
- 34 Feedback from investors suggested that the ED proposals would be useful because the proposals would require entities to disclose quantitative information. The IASB's staff still considered that an entity should be required to disclose qualitative and quantitative information to help investors understand an entity's Pillar Two exposure. However, instead of specifying what information an entity should disclose, they recommended requiring only that an entity discloses both qualitative and quantitative information to meet the disclosure objective.
- 35 In the IASB's staff view, the IASB should not require an entity to disclose Pillar Two-based information to the extent such information is unavailable. An entity might not have made sufficient progress in assessing its exposure to be able to disclose information in its financial statements. In their view, the IASB could apply an approach similar to the requirements in paragraph 30-31 of IAS 8 and require an entity to disclose information only to the extent such information is known or reasonably estimable.
- 36 Furthermore, to the extent information is not known or reasonably estimable, the IASB's staff considered that an entity should disclose a statement to that effect.
- 37 Therefore, the IASB's staff recommended requiring that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect:
- (a) **an entity discloses information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation;**
  - (b) **in meeting that disclosure objective, an entity disclosed known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to be compliant in all respects with the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity should instead disclose a statement to that effect; and**
- 38 **Such approach would make the proposals in ED paragraph 88C(a) and 88C(b)-(c) redundant.**
- 39 In addition to the requirements included in the paragraph 37 above, according to the staff papers the IASB could consider requiring entities to disclose:
- (a) information about progress made in assessing the entity's exposure to Pillar Two taxes; and
  - (b) IAS 12-based information when there is no known or reasonably estimable information about an entity's Pillar Two exposure.
- The IASB's staff will raise questions on these matter during the upcoming IASB's meeting.

*Periods when legislation is in effect*

- 40 The IASB's staff continues to agree with the proposal included in the ED for the reasons explained in paragraph BC25 of the ED (help users understand the magnitude of Pillar Two income taxes relative to an entity's overall tax expense and not be costly). In their view, understanding the magnitude of Pillar Two income taxes relative to an entity's overall tax expense is necessary because the entity would not be recognising deferred tax assets and liabilities related to Pillar Two income taxes. The greater the magnitude of such taxes, the higher the potential effect of the missing deferred tax information.
- 41 Furthermore, applying existing requirements in IAS 12 would not necessarily result in entities disclosing the current income tax expense related to Pillar Two income taxes as an entity might aggregate the effects of Pillar Two income taxes together with other income taxes in its tax reconciliation and an entity might conclude, based on paragraph 80 of IAS 12, that it does not need to further disaggregate its current tax expense when disclosing the major components of tax expense.
- 42 Therefore, the IASB's staff **recommended finalising the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.**

*EFRAG Secretariat analysis*

*Periods before legislation is in effect*

- 43 EFRAG encouraged the IASB to partially use the new approach to drafting disclosure requirements and add a disclosure objective that describes the needs of users of financial statements to assess an entity's exposure to paying top-up tax. EFRAG noted that the disclosure objective included in BC19 should become part of the main body of the Amendments. In this regard, the IASB's staff recommended adding a disclosure objective.
- 44 EFRAG encouraged the IASB to enable an entity to provide their own quantitative assessment of their exposure to paying top-up tax prepared under Pillar Two model rules. In EFRAG's view this should be the primary option to satisfy the disclosure objective if an entity has sufficiently reliable information. The IASB's staff proposed that in meeting the disclosure objective, an entity disclosed known or reasonably estimable qualitative and quantitative information about its exposure to paying top-up tax at the end of the reporting period. The IASB clarified that an entity does not need to be compliant in all respects with the specific requirements of the legislation to provide useful information. It could be an indicative range.
- 45 EFRAG requested in paragraph 18 of its comment letter that for those entities that do not have the Pillar Two impact information available at a sufficiently reliable level to meet the disclosure objective, an alternative quantitative estimate that satisfies the disclosure objective should be provided. Currently, the IASB's staff does not recommend that entities provide alternative information when there is no known or reasonably estimate information about an entity's Pillar Two exposure. When information is not known or reasonable estimable for an entity, the notes would only include a statement to that effect. However, the IASB staff will ask the IASB whether an entity should disclose such information.
- 46 EFRAG encouraged the IASB in paragraphs 15, 20, 21 and 22 of its comment letter to clarify some aspects of the proposals included in paragraphs 88C, 88C(a), 88C(b) and 88C(c) of the ED. The current proposals require qualitative

information and quantitative information about the exposure. The information needs of the users that should be covered by the proposed requirements in 88C (a) and (b) are covered by the principles-based approach. However, the question arises whether this is the case for the in the ED proposed requirements in 88C (c). The IASB Staff proposes that only a statement needs to be made that the entity is not yet ready to provide quantitative information. This does not require to make transparent what progress has been made.

- 47 EFRAG expressed reservations in paragraph 23 of its comment letter on whether the disclosure requirements proposed in paragraph 88C (b) in the ED are fit for purpose for separate financial statements. To the extent that the IASB's staff recommended the introduction of a disclosure objective and the entity would only include information relevant to its circumstances, this concern would be addressed.

#### *Periods when legislation is in effect*

- 48 EFRAG agreed in paragraph 24 of its comment letter with the disclosure of an entity's current tax expense (income) related to Pillar Two income taxes. The IASB's staff recommended finalising this proposal.

### **Effective date and transition**

#### *Summary of the feedback received by the IASB*

##### Temporary exception

- 49 Almost all respondents agreed with the proposal for the reasons set out in the ED.
- 50 A few respondents suggested including in the Standard the statement that the temporary exception would be applicable to 'any financial statements not yet authorised for issue' at the date of issuance of the amendments.

##### Disclosure

- 51 Most respondents agreed with the proposal, mostly for the reasons set out in the ED. However, a few respondents disagreed and suggested requiring an entity to apply the proposed disclosure requirements for annual reporting periods beginning on or after 1 January 2024. They said an entity needs time to prepare the required information.
- 52 A few respondents suggested clarifying whether the proposed disclosure requirements would apply to interim periods. Some of these respondents suggested specifying that an entity would not be expected to disclose this information in interim financial reports published during 2023.

#### *Description of the IASB's staff recommendations*

- 53 The **IASB Staff recommended finalising the proposal to require an entity to apply the temporary exception immediately upon issue of the amendments and retrospectively in accordance with IAS 8**, for the reasons set out in paragraph BC27 of the ED. Indeed, the retrospective application would allow an entity to apply the exception from the date Pillar Two legislation is enacted or substantively enacted even if that date is before the date on which the IASB issues final amendments. Drafting suggestions when drafting the final amendments to IAS 12 will be considered.
- 54 Furthermore, **with reference to the disclosure requirements, the IASB Staff continued to agree with the proposal** for the reasons set out in the ED and



highlighted the need to provide entities enough time to prepare the required information. Indeed, the IASB Staff recommended:

- (a) finalising the proposal to require an entity to apply the disclosure requirements for annual reporting periods beginning on or after 1 January 2023; and
- (b) specifying that an entity is not required to apply the disclosure requirements in interim financial reports for any interim period within 2023.

55 Such a proposed effective date would remain appropriate even if the IASB will agree with the IASB Staff recommendation for targeted disclosure requirement (see section 'Targeted Disclosures'). These recommendations would allow an entity to use available Pillar Two-based information in meeting the disclosure requirements, and therefore are not expected to increase the time and effort needed to prepare the required information.

*EFRAG Secretariat analysis*

56 As already stated in the comment letter, the EFRAG Secretariat continues to agree with the IASB proposal. This is regardless of the fact that the IASB will not include the clarification - highlighting that the Proposed Amendments, once effective, will be applicable to any financial statements not yet authorised for issue at that date - proposed by EFRAG in paragraph 26 of its comment letter in the main body of the standard. EFRAG Secretariat notes that such clarification is included in paragraph BC27 of the ED.

**Other comments received by the IASB**

57 The feedback provided to the IASB presented in this paper addresses the main issues - based on EFRAG's comment letter. The appendix B to the following IASB staff papers contains further feedback received - AP12A Temporary exception to deferred tax accounting, [AP12B Disclosures](#), and [AP12C Transition and effective date](#). [The papers include a short description why or why not they were addressed.](#)

**Questions for EFRAG FR TEG**

- 58 Does EFRAG FR TEG has any comment or question on the decisions made by the IASB?
- 59 Does EFRAG FR TEG has any suggestion that the EFRAG Secretariat should take into account when preparing the preparatory draft endorsement advice?
- 60 Does EFRAG FR TEG has any input for the EFRAG Secretariat to take into account when assessing whether the Amendments meet the IAS Regulation technical endorsement criteria (the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship)
- 61 Does EFRAG FR TEG has any input for the EFRAG Secretariat to take into account when assessing whether the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off?