

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 Cover Note

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.

Background of the project

- 2 In March 2022, the OECD released guidance on its 15% global minimum tax agreed as the second "pillar" of a project to address the tax challenges arising from digitalisation of the economy. Stakeholders informed the IASB of concerns about the potential implications for income tax accounting resulting from jurisdictions implementing the OECD's Pillar Two model rules. The IASB discussed the issue in its meeting in November 2022.
- 3 In December 2022 EFRAG FR TEG and EFRAG FRB received an introduction to the project and provided some initial feedback. In addition, the EFRAG FRB agreed to adopt a fast-track approval process of EFRAG's comment letter in response to the IASB's ED and of the endorsement advice on the IASB's expected amendments.
- 4 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 International Tax Reform-Pillar Two Model Rules (Proposed Amendments to IAS 12) ("the [ED](#)") with a comment period ending 10 March 2023.
- 5 The proposed amendments would introduce:
 - (a) a (mandatory) temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and
 - (b) targeted disclosure requirements:

- (i) before; and
 - (ii) after the Pillar two model rules are in effect.
- 6 EFRAG published its [draft comment letter](#) on the ED on 30 January 2023. After extensive outreach with different stakeholders EFRAG submitted its [final comment letter](#) to the IASB on 13 March 2023. The main messages included in the comment letter were as follows:

Temporary exception to deferred tax accounting

- (a) EFRAG overall supported the IASB's proposal to introduce a mandatory temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities arising from the OECD's Pillar Two Model Rules;
- (b) EFRAG highlights the urgent need of the proposed amendments to IAS 12. Hence, the proposed changes or clarifications should not lead to a delay in finalising the Proposed Amendments considering that it will take some additional time to integrate the Proposed Amendments into local law in various jurisdictions (including the European Union);
- (c) EFRAG encouraged the IASB to clarify to which extent top-up taxes meet the definition of income taxes as defined in IAS 12 and whether top-up tax based on the Pillar Two model rules were in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity;
- (d) EFRAG stated that disclosing that the entity is required apply the exception provides transparency about the fact that the entity might be impacted by top-up tax. However, EFRAG suggested that the IASB clarifies the underlying rationale asking for such a specific disclosure (e.g., it should inform users of financial statements whether the entity is in scope or not in scope of Pillar Two model rules), 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).

Targeted Disclosures

- (e) EFRAG supported the efforts of the IASB to define a disclosure approach that would provide information to users of financial statements to assess an entity's exposure to paying top-up tax that would not involve undue cost or effort. EFRAG proposed some changes to the IASB's proposals;
- (f) EFRAG encouraged the IASB to add a disclosure objective that describes the needs of users of financial statements;
- (g) EFRAG was of the view that the IASB should apply a more principle-based approach. The IASB should enable entities to provide their own quantitative assessment of their exposure to paying top-up tax prepared under Pillar Two model rules. This should be the primary option to meet the disclosure objective if an entity has reliable information;
- (h) If such Pillar Two information is not available or is not sufficient to meet the disclosure objective, an alternative quantitative estimate that satisfies the disclosure objective should be provided;

Transition, effective date any other matters

- (i) The timing at which the Proposed Amendments will be published by the IASB is critical. The temporary exception is urgently needed for entities in scope of Pillar Two model rules;
 - (j) EFRAG encouraged the IASB including in the main body of the Standard (i.e., in paragraph 98M (a) of the ED) the clarification included in paragraph BC27 highlighting that the Proposed Amendments, once effective, will be applicable to any financial statements not yet authorised for issue at that date. Such an approach would be consistent with that already applied by the IASB (e.g., paragraph C1C of the amendments to IFRS 16 ‘Covid-19-Related Rent Concessions beyond 30 June 2021’ issued in March 2021); and
 - (k) EFRAG recommends that the IASB schedules in its workplan an activity of review, so that the exception may be terminated, or retained as permanent, at the appropriate moment.
- 7 The IASB’s Staff has published on 6 April 2023 the Agenda Papers providing the IASB with a summary of feedback on the ED and the IASB’s Staff analysis and recommendations on how to proceed. The Agenda Papers will be discussed on the 11 April 2023 IASB’s meeting. The links to the Agenda Papers are included below:
- (a) [AP12 Cover paper](#)
 - (b) [AP12A Temporary exception to deferred tax accounting](#)
 - (c) [AP12B Disclosures](#)
 - (d) [AP12C Transition and effective date](#)
 - (e) [AP12D Due Process](#)

Questions for EFRAG FR TEG

- 8 Does EFRAG FR TEG has any comment or question on the decisions made by the IASB?
- 9 Does EFRAG FR TEG has any suggestion that the EFRAG Secretariat should take into account when preparing the preparatory draft endorsement advice?
- 10 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)
- 11 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?

Next steps

- 12 The EFRAG Secretariat to send the preparatory draft endorsement advice to FR TEG members and seek written approval. The EFRAG Secretariat will send **on 18**

April noon the preparatory draft endorsement advice to FR TEG members for comments and written approval to be received **before 20 April noon**.

- 13 Such Preparatory working version of EFRAG’s draft endorsement advice in relation to expected IASB Amendments relating to the International Tax Reform–Pillar Two Model Rules will be exceptionally prepared and published before publication of the Amendments in order to allow sufficient time to constituents to form a view on the endorsement of the Amendments. The endorsement process is intended to proceed fast in order to allow constituents to benefit from the Amendments as soon as possible. Once the Amendments are officially published by the IASB, EFRAG will adapt the preparatory document and release its official draft endorsement advice with a very short reaction time for constituents. Hence the release of this preliminary version may help constituents in forming their view about the expected Amendments in a timely way.
- 14 The IASB’s staff indicates in Agenda Paper 12D Due Process (see link above) that the balloting process for the amendments to IAS 12 will commence in the near term, with the amendments planned for issue in the second half of May 2023.
- 15 Based on the preparatory draft endorsement advice consultation, EFRAG is planning to submit its endorsement advice within 10 days after the issuance of the amendments to the European Commission.

Agenda Papers

- 16 In addition to this cover note, agenda paper 05-02 – *Issues Paper* – has been provided for the session.