IFRS Accounting

Staff paper

Agenda reference: 12C

IASB meeting

Date	**April 2023**
Project	**International Tax Reform—Pillar Two Model Rules**
Topic	**Transition and effective date**
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Introduction and purpose

1. As Agenda Paper 12 explains, this paper:
   - (a) summarises feedback on the proposals for transition and effective date of the proposed amendments included in the Exposure Draft *International Tax Reform—Pillar Two Model Rules*; and
   - (b) provides our analysis of that feedback and recommendations.

Structure of this paper

2. This paper includes:
   - (a) summary of staff recommendations (paragraph 3);
   - (b) summary of feedback, staff analysis and recommendations on the transition and effective date for:
     - (i) the temporary exception (paragraphs 4–12); and
     - (ii) the disclosure requirements (paragraphs 13–23).

Summary of staff recommendations

3. Based on our analysis in this paper, we recommend:

   (a) finalising the proposal to require an entity to apply:

      (i) the temporary exception immediately upon issue of the amendments and retrospectively in accordance with IAS 8; and

      (ii) the disclosure requirements for annual reporting periods beginning on or after 1 January 2023.

   (b) specifying that an entity is not required to apply the disclosure requirements in interim financial reports for any interim period within 2023.

Temporary exception

Proposals in the Exposure Draft

4. The IASB proposes that an entity apply the temporary exception—and the requirement to disclose that the entity has applied the exception—immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

5. Paragraph BC27 of the Exposure Draft explains the reasons for this proposal:

> BC27 The IASB concluded that, for the temporary exception to be effective, it would need to be available to entities immediately upon the issue of the amendments and applicable to any financial statements not yet authorised for issue at that date. The IASB decided to propose retrospective application of the temporary exception because such application would result in:
>
> (a) entities applying 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; and
>
> (b) no additional costs.

Summary of feedback

6. Almost all respondents agree with the proposal for the reasons set out in the Exposure Draft. However:

   (a) the Canadian Accounting Standards Board (AcSB) says requiring immediate application may create challenges for countries to accommodate their endorsement and translation processes. The respondent says the amendments might consequently have different effective dates in IFRS Accounting Standards and local GAAPs. To mitigate this risk, the respondent suggests requiring an effective date of 1 January 2024 with early application permitted.

   (b) a few respondents question how an entity would apply the requirements retrospectively given legislation is generally expected to be in effect only after 1 January 2024. These respondents suggest requiring prospective application.

7. A few respondents suggest 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.

Staff analysis

8. We continue to agree with the proposal for the reasons set out in paragraph BC27 of the Exposure Draft. Paragraph 47 of IAS 12 *Income Taxes* requires an entity to reflect tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period in measuring deferred tax assets and liabilities. 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.

9. We do not recommend requiring entities to apply the temporary exception for annual reporting periods beginning on or after 1 January 2024 with early application permitted. Doing so would allow an entity to develop its own interpretation of IAS 12 and recognise deferred tax assets and liabilities related to Pillar Two income taxes for

2023 reporting periods. This would reduce comparability between entities' financial statements and might result in some entities inadvertently developing accounting policies that are inconsistent with the principles and requirements in IAS 12—outcomes the IASB intended to avoid by requiring the temporary exception to be mandatory.

10. Applying our recommendation in Agenda Paper 12A, an entity would no longer be required to disclose that it has applied the exception. However, if the IASB disagrees with our recommendation in that paper and decides to require an entity to disclose that it has applied the exception, we recommend an entity apply this requirement immediately upon issue of the amendments.

11. We will consider drafting suggestions when drafting the final amendments to IAS 12.

12. Based on our analysis, we recommend 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.

Question 1 for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 12?

Disclosure requirements

Proposals in the Exposure Draft

13. The IASB proposes that an entity apply the disclosure requirements in proposed paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.[1]

[1] See Agenda Paper 12B for this meeting for further details about the proposed disclosure requirements.

14. Paragraph BC28 of the Exposure Draft explains the reasons for this proposal:

> BC28 The IASB proposes to require an entity to apply the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023. The IASB concluded that entities would need time to prepare the required information.

Summary of feedback

15. Most respondents agree with the proposal, mostly for the reasons set out in the Exposure Draft. However, a few respondents disagree and suggest requiring an entity to apply the proposed disclosure requirements for annual reporting periods beginning on or after 1 January 2024. They say an entity needs time to prepare the required information.

16. A few respondents suggest clarifying whether the proposed disclosure requirements would apply to interim periods. Some of these respondents suggest specifying that an entity would not be expected to disclose this information in interim financial reports published during 2023.

Staff analysis

Effective date

17. We continue to agree with the proposal for the reasons set out in the Exposure Draft.

18. We disagree with the suggestions to change the effective date to 1 January 2024. Feedback confirmed many jurisdictions are expected to enact Pillar Two legislation during 2023, and make the legislation effective from 1 January 2024. Therefore, an effective date of 1 January 2024 for the proposed disclosure requirements would result in investors not receiving information about an entity's Pillar Two exposure precisely in the periods in which they need this information.

19. Agenda Paper 12B discusses feedback on proposed paragraph 88C and includes our recommendations for a revised approach. In our view, the proposed effective date remains appropriate if the IASB agrees with our recommendations. 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.

Interim financial reports

20. In proposing the effective date for the disclosure requirements, the IASB concluded that entities need time to prepare the required information. In our view, if the disclosure requirements were applicable in interim periods within 2023, some entities could be required to apply these requirements shortly after the IASB issues the amendments. Therefore, those entities would not have enough time to prepare the required information—the outcome the IASB wanted to prevent.

21. Consequently, we recommend specifying that an entity is not required to apply the proposed disclosure requirements in interim financial reports for any interim periods within 2023. In our view, such clarification is necessary because the IASB expects to publish the amendments in May 2023—that is, during a annual reporting period in which the proposed disclosure requirements would be effective.

22. In drafting the above recommendation, we considered referring to any interim periods within the first annual reporting period in which the entity applies the disclosure requirements. However, we think referring only to interim periods within 2023 is sufficient.

Staff recommendation

23. Based on our analysis, we recommend:

    (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.

Question 2 for the IASB
2. Does the IASB agree with the staff recommendation in paragraph 23?