

Invitation to Comment

Call for comments on the Exposure Draft *International Tax Reform – Pillar Two Model Rules: Proposed amendments to IAS 12*

Deadline for completion of this Invitation to Comment:

Midday, Friday 3 March 2023

Please submit to:

UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the Exposure Draft (ED) *International Tax Reform – Pillar Two Model Rules: Proposed amendments to IAS 12* (the Amendments), published by the International Accounting Standards Board (IASB) on 9 January 2023. The IASB's comment period ends on 10 March 2023.

UK endorsement and adoption process

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the IASB's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with the 'Your Details' form to UKEndorsementBoard@endorsement-board.uk by midday on Friday 3 March 2023.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through responses to this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)¹.

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

¹ These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

Questions

Mandatory temporary exception and 'sunset clause'

1. The UKEB's draft comment letter supports the introduction of a mandatory temporary exception from accounting for deferred tax arising from the Pillar Two model rules. Do you agree with this? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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2. Please include any comments you may have in response to question 1:

Click or tap here to enter text.

3. The UKEB's draft comment letter supports the absence of a 'sunset clause'. Do you agree with the absence of a 'sunset clause'? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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4. Please include any comments you may have in response to question 3:

Click or tap here to enter text.

Disclosures in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect

5. The UKEB's draft comment letter raises concerns about the clarity of draft paragraph 88C (a). Do you share these concerns? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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6. Please include any comments you may have in response to question 5:

Click or tap here to enter text.

7. The UKEB's draft comment letter raises concerns that the disclosures required by draft paragraph 88C (b) may not meet the disclosure objective expressed at paragraph BC19, i.e. *"to help users assess an entity's exposure to paying top-up tax"*, as effective tax rates calculated on an IAS 12 basis could be a poor proxy for those calculated on a Pillar Two basis. Do you share these concerns? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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8. Please include any comments you may have in response to question 7:

<p>We concur that the costs and benefits associated with making these disclosures should be reassessed. In our view the disclosures represent a significant compliance burden, especially because equivalent calculations for tax compliance purposes will not be produced until after 2023.</p>
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9. The UKEB draft comment letter notes that stakeholders expressed concerns that 88C (c) does not provide a sufficient corrective to 88C (b). Do you share those concerns? Please explain why or why not.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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10. Please include any comments you may have in response to question 9:

<p>We believe it should be made clearer whether the assessments referred to in this paragraph are required to be performed by a reporting entity or not.</p> <p>In addition we are not in favour of disclosures that are intended to correct other required disclosures. This would indicate that the disclosures intended to be corrected are not providing relevant, reliable and understandable information and therefore the requirements should be revised.</p>
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11. The UKEB’s draft comment letter recommends the IASB considers replacing the detailed requirements in paragraph 88C with a more general requirement to provide information sufficient to meet the objective. Do you agree with this recommendation? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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12. Please include any comments you may have in response to question 11.

<p>We therefore concur that the IASB should consider other approaches. We appreciate the UKEB’s efforts trying to find alternative solutions to address some of the weaknesses identified in the IASB’s proposals.</p> <p>We concur a disclosures objective alone may not result in relevant and consistent disclosures. It needs to be supported with conditions, factors to consider or specific disclosure requirements that guide reporting entities. Illustrative examples would require some analysis and testing and if issued after the amendments are published would not be timely enough.</p>
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13. The UKEB’s draft comment letter recommends that the more general disclosure requirement should remain in place for the life of the temporary exception, but should be reconsidered when the IASB reviews the Amendments, once most jurisdictions have implemented the Pillar Two model rules. Do you agree with this recommendation? Please explain why or why not.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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14. Please include any comments you may have in response to question 13:

<p>The disclosure in paragraph 88C would cease to apply once Pillar Two legislation is both enacted and effective. It is not clear why the UK EB proposed disclosures would need to be provided for a possibly longer period, ie until the IASB removes the temporary exemption proposed in paragraph 4A of IAS 12.</p>

15. The UKEB’s draft comment letter supports the proposed requirement for entities to disclose their current tax expense in relation to Pillar Two income taxes separately, once Pillar Two is effective. Do you agree with this proposal? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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16. Please include any comments you may have in response to question 15:

The disclosure should be designed to separate the current base jurisdictional taxes from the top up taxes under Pillar Two tax legislation, as this is useful information for users.

17. Should the IASB retain its disclosure requirements for 88C (a), (b) and (c) as drafted, the UKEB’s draft comment letter recommends that the IASB incorporates the objective of the disclosure requirement, i.e. *“to help users assess an entity’s exposure to paying top-up tax”* (ED/2023/01 paragraph BC19) in the disclosure requirement itself at paragraph 88C. Do you agree with this recommendation? Please explain why or why not.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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18. Please include any comments you may have in response to question 17:

Although we concur with the objective itself, its explicit inclusion in the amendments, rather than in the Basic for Conclusions would not cure the weaknesses identified in the disclosure proposals.

Disclosures in periods in which Pillar Two legislation is in effect

19. The UKEB’s draft comment letter supports the proposed requirement for entities to disclose their current tax expense in relation to Pillar Two income taxes separately, once Pillar Two is effective. Do you agree with this proposal? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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20. Please include any comments you may have in response to question 19:

Question 19 and question 15 are identical. Please see our response in question 16.

Effective date and transition

21. The UKEB’s draft comment letter supports the effective date and transition requirements. Do you agree with the support for these proposals? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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22. Please include any comments you may have in response to question 21:

Given that it is expected Pillar Two legislation will become enacted in the course of 2023, the completion of the project by the IASB is urgent. The UK EB could usefully consider how it may react to a situation when entities should have to report before the IASB's temporary exemption is endorsed in the UK, but after the relevant tax legislation is enacted. The uncertainty this would create could helpfully be resolved by UK regulators.

We concur with the UK EB that the proposals should be finalised timely. We also believe that it is equally important for the IASB to reflect on the disclosure weaknesses identified by stakeholders and amend the proposals so they are practicable to apply and will provide useful information.

Thank you for completing this Invitation to Comment

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