Feedback Statement

IASB Exposure Draft: *International Tax Reform: Pillar Two Model Rules*

March 2023

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 on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation’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.

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's public consultation on its Draft Comment Letter on the IASB's Exposure Draft *International Tax Reform: Pillar Two Model Rules* and explains how the UKEB's Final Comment Letter addressed those views.

The IASB's Exposure Draft

Stakeholders have said that accounting for deferred tax on Pillar Two top-up tax would be impracticable and could lead to diversity in practice. In response, the IASB has issued an Exposure Draft (ED).

It proposes **a mandatory temporary exception** from accounting for deferred tax arising from the Pillar Two model rules. When the exception is applied, entities should state this fact.

Once the Pillar Two model rules are effective in a jurisdiction, the entity should present its Pillar Two current tax expense or income separately from other current tax expense or income. [ED paragraph 88B]

The IASB's Exposure Draft

During the period in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity should present the following disclosures:

1. Information about such legislation enacted or substantively enacted in jurisdictions where the entity operates. [ED paragraph 88C (a)]
2. The jurisdictions where the entity's effective tax rate under IAS 12 is below 15%, the aggregate accounting profit and tax expense or income for those jurisdictions, and the resulting weighted average effective tax rate. [ED paragraph 88C (b)]
3. Whether assessments the entity has made in preparing for Pillar Two indicate that there are jurisdictions not included under ED paragraph 88C(b) where the entity considers it may be exposed to paying Pillar Two top-up tax, or included at ED paragraph 88C(b) where the entity considers it will not be exposed to paying Pillar Two top-up tax. [ED paragraph 88C (c)]

Outreach approach

The UKEB's outreach activities took place in January and February 2023 and were conducted to develop the UKEB Draft Comment Letter (DCL).

As the ED related to an urgent narrow scope amendment, the UKEB applied a proportionate approach, enabling the IASB comment deadline to be met.

Outreach before the publication of the DCL

We gathered feedback through the following channels:

- **Roundtables:** we hosted two roundtables, one for accounting firms and institutes, and one attended by preparers and also open to investors. Both roundtables, which included virtual polls as well as discussion, had over 20 attendees.
- **Advisory groups:** the Investor Advisory Group discussed the ED at its February 2023 meeting.
- **Other discussions:** we also held separate discussions with two accounting firms and the FRC.

In total, seven separate discussions were held with stakeholders, including accounting firms and institutes who reflected the views of wider groups.

Responses to the DCL

Once the DCL was published, we shared it publicly as well as with our outreach participants.

Four responses to the DCL were received. These are summarised in the next pages.

All comments and views were considered in reaching the UKEB's views expressed in its Final Comment Letter.

Stakeholder type	Number of discussions
Preparers	1
Accounting firms and institutes	4
Regulators/ Standard Setters	1
Users	1

1. Scope, mandatory temporary exception and requirement to disclose application of the exception

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
The Amendments apply to "*[...] income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules [...]*"	The Amendments do not state explicitly that all taxes arising from Pillar Two are income taxes in the scope of IAS 12. The UKEB suggested removing the word "*income*" from the scope paragraph, so that it reads "*This Standard applies to ~~income~~ taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules [...]*".	One stakeholder raised a concern that deleting the word "*income*" could give rise to 'scope creep' if taxes that are not income taxes are introduced into IAS 12.	Consistent with the draft position. The UKEB considered that the risk of introducing taxes that are not income taxes into IAS 12 through these Amendments was low and was outweighed by the risk of increased diversity in practice if there is a lack of clarity on the scope of the Amendments.
As a mandatory temporary exception to the requirements in IAS 12, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. An entity shall disclose that it has applied the exception. [ED paragraphs 4A, 88A].	The UKEB agreed with the mandatory exception, and the disclosure that it has been applied. The UKEB further agreed that it should be temporary and that there should not be a 'sunset clause'.	Stakeholders agreed with the UKEB draft position.	Consistent with the draft position.

UKEB

2. Disclosure requirements

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes. [ED paragraph 88B]	The UKEB agreed with this requirement.	Stakeholders agreed with the UKEB draft position.	Consistent with the draft position.
In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose information about legislation enacted or substantively enacted in jurisdictions in which it operates. [ED paragraph 88C(a)]	The UKEB questioned the clarity of this requirement. In the event that the IASB decides to retain 88C (a), (b) and (c), we suggested that the IASB incorporated the objective of the disclosure requirement in the disclosure requirement itself. However, we did not recommend that the IASB delays publication of the Amendments solely to perfect any of the disclosure requirements.	Stakeholders agreed with the UKEB draft position questioning the clarity of the requirement.	Consistent with the draft position.

3. Disclosure requirements (continued)

IASB proposal	UKEB draft position	Stakeholders’ responses to DCL	UKEB final position
In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose the jurisdictions in which its effective tax rate, as calculated under IAS 12 paragraph 86, is below 15%. The entity shall also disclose the tax expense (income) and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate. [ED paragraph 88C(b)]	The UKEB noted that UK preparers and accounting firms considered that the effective tax rate calculated under IAS 12 paragraph 86 could be a poor proxy for the jurisdictional effective tax rate calculated on a Pillar Two basis.	Stakeholders agreed with the UKEB draft position. The existence of 88C(c) indicates the inadequacy of 88C(b). Such a corrective disclosure indicates that the disclosure requirement may not provide relevant, reliable and understandable information.	Consistent with the draft position.

4. Disclosure requirements (continued)

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose whether assessments it has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions included at 88C(b) but where the entity may not be exposed to paying top-up tax, or jurisdictions not included at 88C(b) where the entity may be exposed to paying top-up tax. [ED paragraph 88C (c)]	Stakeholders expressed concerns that 88C (c) does not provide a sufficient corrective to 88C (b), since it does not require any quantitative or other detailed information. The UKEB therefore proposed a more general disclosure requirement that lasts for the life of the exception. In the event that the IASB decides to retain 88C (a), (b) and (c), the UKEB suggested that the IASB includes the objective of the disclosure requirement. It should also publish guidance.	Stakeholders agreed that 88C(c) does not provide a sufficient corrective to 88C(b). Two stakeholders agreed with the UKEB proposed general disclosure requirement; one of the two did not agree that it should be required once Pillar Two legislation was effective. One stakeholder did not agree with the UKEB proposal. They observed that whilst the IASB proposal does appear to have limitations, it should however aid comparability, at least within a jurisdiction. That stakeholder considered that the UKEB's proposal would not necessarily achieve that. Additional comments from individual stakeholders who agreed with the proposed general disclosure requirement were: • Simply including the disclosure objective in the Standard rather than the Basis for Conclusions would not remedy the inadequacies of the disclosure requirements. • It would be preferable if the FCL solely recommended the general disclosure requirement without commenting on the specific proposals in 88C. • Examples/guidance would be most useful if published at the same time as the Amendments. • The requirements of 88C represent a significant compliance burden.	• Retained the recommendation for a general disclosure requirement, as the IASB proposal might introduce uniformity without necessarily improving comparability. • Retained recommendation that the disclosure requirements should be required throughout the life of the temporary exception, as the current tax expense on its own may not be sufficient to give a reliable indication of the future impact of Pillar Two top-up taxes. • Removed comments on the specific proposals from the cover letter, but retained them in the Appendix to emphasise the preference for general disclosure requirements, while still offering feedback on the IASB proposals as drafted. • Emphasised the concern that the disclosures as drafted may not be sufficient to achieve the objective. • Added a further recommendation to strengthen 88C(c), should the IASB not adopt the general disclosure requirement. • Noted a preference for guidance to be published with the Amendments or, at least, in 2023. • Did not include comments on compliance burden as the preparers' roundtable, attended by over 20 people, did not share the view that the compliance burden would be onerous.

UKEB

5. Effective date

IASB proposal	UKEB draft position	Stakeholders’ responses to DCL	UKEB final position
Entities must apply the exception and disclose that it has been applied immediately and retrospectively. The other disclosures (ED paragraphs 88B and 88C) are required for annual reporting periods beginning on or after January 2023.	The UKEB agreed with the IASB's proposals regarding the effective date.	Stakeholders agreed with the UKEB position.	Consistent with the draft position.

Disclaimer

This feedback statement has been produced in order to set out the UKEB’s response to stakeholder comments received on the IASB's Exposure Draft *International Tax Reform – Pillar Two Model Rules: Amendments to IAS 12* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

Contact Us

UK Endorsement Board

1st Floor | 1 Victoria Street | London |
SW1H 0ET | United Kingdom

contact@endorsement-board.uk

Web: www.endorsement-board.uk