UK Endorsement Board

International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12) – Adoption Package

Executive Summary

Project Type	Endorsement and Adoption
Project Scope	Narrow-scope

Purpose of the paper

This paper requests the Board's approval of the individual documents included as part of the 'adoption package' for the project to assess *International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12) (the Amendments) for adoption.

The documents included in the adoption package are:

- The final Endorsement Criteria Assessment (ECA);
- The Feedback Statement;
- The draft Due Process Compliance Statement;
- The draft Adoption Statement for the Amendments; and
- The text of the UK-adopted international accounting standard (Amendments to IAS 12).

Summary of the Issue

The Amendments provide a mandatory temporary exception from deferred tax accounting in relation to Pillar Two top-up taxes, and require an entity to disclose that it has applied the exception. They also require targeted disclosures.

The exception from deferred tax accounting will be effective immediately and apply retrospectively, together with the requirement to disclose that it has been applied. Additional targeted disclosure requirements will be effective for annual periods beginning on or after 1 January 2023.

A joint PIP for the influencing and endorsement projects was approved at the February 2023 Board meeting. The UKEB has now completed all its work and outreach on the Amendments, and the results have been incorporated in the adoption package presented to the Board at this meeting.

As agreed by the Board, this paper has been delivered late in order to enable all responses to the public consultation on the draft ECA to be considered, following the

minimum 14-day period for public consultation, in accordance with the Due Process Handbook. The Board is required to assess whether or not to adopt the Amendments for use in the UK. The tentative vote on the adoption of the Amendments will be held at this meeting. The written forms for the formal vote will be sent to Board members after this meeting. The result of that formal vote, when completed, will be updated on the UKEB website within three days, in line with the Board's terms of reference.
Decisions for the Board
1. Subject to any changes identified at this meeting, does the Board approve: a) the final ECA (Appendix A)? b) the Feedback Statement (Appendix B)? c) the draft Due Process Compliance Statement (Appendix C)? d) the detailed wording of the Adoption Statement (Appendix D)? 2. Does the Board tentatively approve the adoption of the Amendments to IAS 12 for use in the UK?
Recommendation
The Secretariat recommends the Board approves the relevant documents in the adoption package and tentatively approves the adoption of the Amendments to IAS 12.
Appendices
Appendix A Final Endorsement Criteria Assessment (ECA) Appendix B Feedback Statement Appendix C [Draft] Due Process Compliance Statement Appendix D [Draft] Adoption Statement of *International Tax Reform – Pillar Two Model Rules* (Amendments to IAS 12) Appendix E Annex to the Adoption Statement: Text of the UK-adopted international accounting standard (Amendments to IAS 12)

UK Endorsement Board

Endorsement of the Amendments

UKEB endorsement project

1. In February 2023, the UKEB approved a joint Project Initiation Plan (PIP) for the influencing and endorsement projects on the Amendments. At its June 2023 meeting, the Board approved the Draft Endorsement Criteria Assessment (DECA) for the Amendments for stakeholder consultation. The DECA set out the UKEB's provisional assessment of whether the Amendments met the UK's statutory requirements for adoption. The DECA was published on 26 June 2023 and was open for comment until 10 July 2023.

2. Stakeholders have observed that this matter is urgent, as some jurisdictions have already enacted or substantively enacted Pillar Two legislation, including the UK.

Summary of responses received

3. Seven responses to the DECA were received, six from accounting firms and one from a preparer. All respondents supported adopting the Amendments.

Technical Accounting Criteria Assessment

4. All respondents agreed with the technical accounting criteria assessment. Four accounting firms observed the importance of UK-adopted IFRS remaining aligned with IFRS as issued by the IASB. One further accounting firm observed: "*Given the international nature of the Pillar Two Income tax rules, we […] believe that it would be inappropriate for UK-Adopted IAS to diverge from IFRS as issued by the IASB in this respect.*"

5. Another accounting firm commented that they believed that "*[…] the exception for Pillar Two model rules for deferred tax accounting is necessary due to the complexity in calculating the deferred tax impact of Pillar Two top-up taxes. Furthermore, we believe that the additional disclosures will provide useful and relevant information to financial statement users.*"

True and Fair View requirement

6. All respondents agreed that the Amendments were not contrary to the true and fair view requirement.

Long-term public good

7. All respondents agreed with the assessment of costs and benefits for preparers and users of the Amendments. The preparer further commented: "*We welcome the amendments to the disclosure requirements which enable us to provide meaningful information on our exposure to pillar two income taxes*".

8. All respondents agreed with the assessment that the Amendments were likely to be conducive to the long-term public good in the UK. One accounting firm observed that "*We agree that the Amendments are conducive to the long term public good in the UK. Furthermore, the Amendments provide clarity to both users and preparers of financial statements and will eliminate potential diversity in practice.*"

9. In addition, four of the seven responses commented on the urgency with which the Amendments were needed, three welcoming the application of an accelerated process for endorsement and one "*encourag[ing] a speedy endorsement*".

Feedback Statement and ECA

10. A summary of stakeholders' comments is included in the Feedback Statement (Appendix B). The Secretariat does not consider that the ECA requires amendment as a result of the responses from stakeholders. The only changes made to the text of the ECA are editorial, and they are shown in track changes in the version presented as Appendix A.

Due Process Compliance Statement

11. A draft Due Process Compliance Statement (DPCS) is included as Appendix C. It sets out the process followed during this endorsement project and its compliance with the UKEB's due process. A final DPCS will be presented for noting at the September Board meeting.

12. The Secretariat has therefore now completed its assessment of the Amendments.

Decisions for the Board
1. Subject to any changes identified at this meeting, does the Board approve: a) the final ECA (Appendix A)? b) the Feedback Statement (Appendix B)? c) the draft Due Process Compliance Statement (Appendix C)? d) the detailed wording of the Adoption Statement (Appendix D)?

UK Endorsement Board

Project closure

13. In accordance with the UKEB's Due Process Handbook paragraph 6.30, the project closure process for endorsement projects comprises the following steps:

    a) preparation of an 'adoption package' for the Amendments; and

    b) voting on the adoption of the amended standard.

Adoption package

14. In accordance with paragraph 6.31 of the Due Process Handbook, the individual documents within the adoption package for the Amendments are:

    a) the final ECA (Appendix A);

    b) the Feedback Statement (Appendix B);

    c) the Due Process Compliance Statement (Appendix C);

    d) the Adoption Statement for the Amendments (Appendix D); and

    e) the Annex to the Adoption Statement: the text of the UK-adopted international accounting standard (Appendix E).

Voting on the adoption of the Amendments

15. Decisions on the adoption of a standard or amendment are made at public Board meetings and follow the requirements of paragraphs 5.2–5.5 in Section 5 of the UKEB's Terms of Reference (ToR).

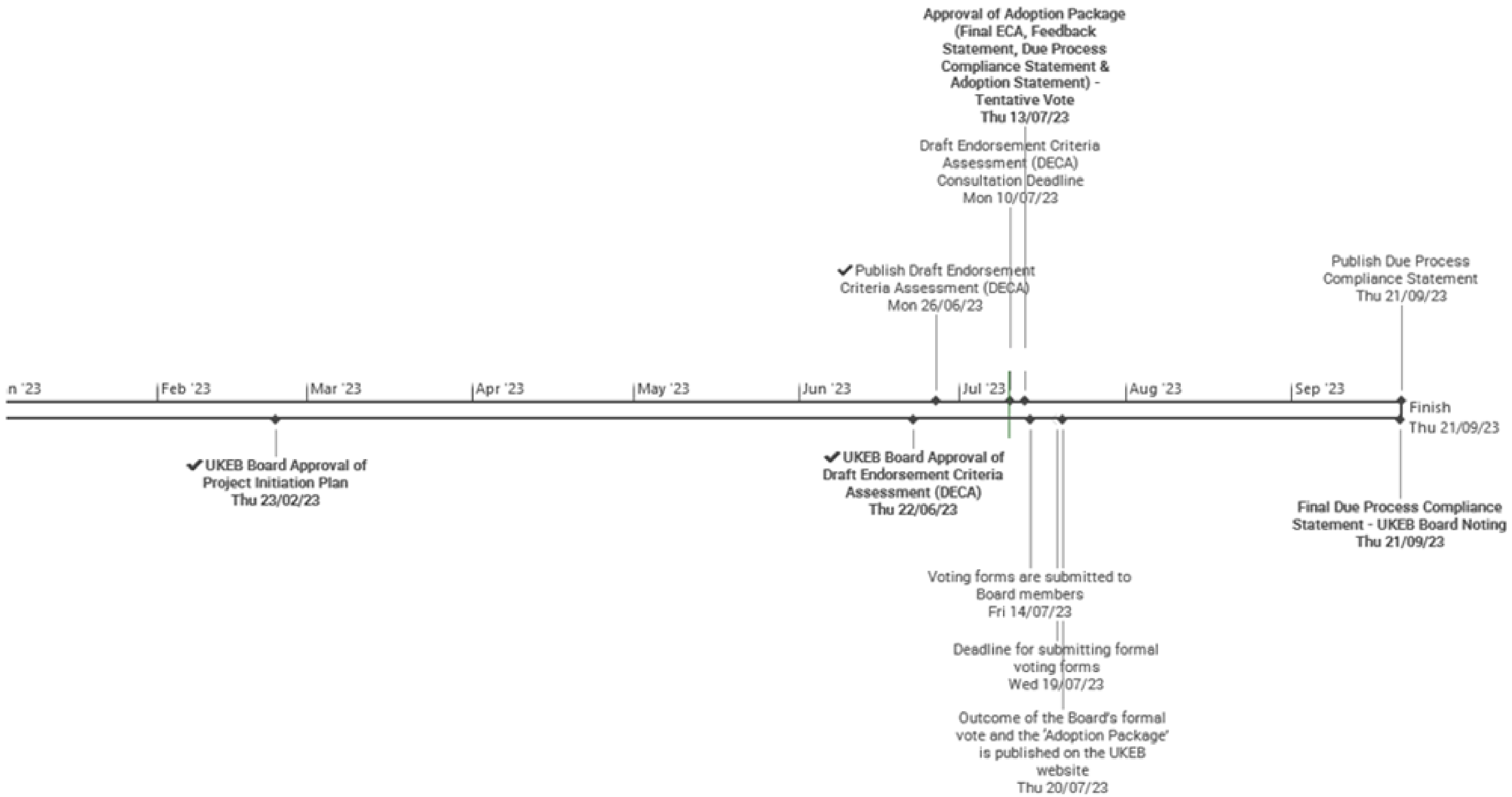
16. At this public meeting Board members are asked to provide a tentative vote on the adoption of the Amendments based on the discussion of the adoption package.

17. The written forms for the formal vote will be sent to Board members after this meeting. The result of that formal vote, when completed, will be updated on the UKEB website within three days, in line with the Board's terms of reference.

Decision for the Board
2. Does the Board tentatively approve the adoption of the Amendments to IAS 12 for use in the UK?

UK Endorsement Board

Endorsement and Adoption timeline (as proposed in February 2023 PIP)



UKEB
UK Endorsement Board

~~Draft~~ Endorsement Criteria Assessment

International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)

~~June~~ July 2023

Contents

Introduction

Purpose

1. The purpose of this ~~Draft~~ Endorsement Criteria Assessment (~~D~~ECA) is to determine whether *International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12) (the Amendments)[1], issued by the International Accounting Standards Board (IASB) in May 2023, meet the UK's statutory requirements for adoption as set out in Regulation 7 of Statutory Instrument (SI) 2019/685[2].

2. The IASB's proposals were set out in Exposure Draft ED/2023/1 *International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12) (the ED)[3]. The UKEB submitted its Final Comment Letter (FCL) on the ED to the IASB on 9 March 2023[4].

Background to the Amendments

3. The Pillar Two model rules introduce a minimum tax rate for entities and groups with turnover of €750m or above. In jurisdictions where an entity or group's effective tax rate is below 15%, the Pillar Two model rules require the entity or group to top up the tax it pays to that rate.

4. Stakeholders expressed concern about the complexities of accounting for deferred tax in respect of the Pillar Two model rules. They also highlighted to the IASB that there is an urgent need for clarity due to the expected enactment of the Pillar Two model rules in 2023 across multiple jurisdictions, including the UK. In response to this feedback, the IASB developed the Amendments.

5. ~~If adopted, t~~The Amendments ~~will~~ introduce a mandatory temporary exception from deferred tax accounting in relation to Pillar Two income taxes, a requirement to disclose that this exception has been applied and targeted disclosure requirements. The exception from deferred tax accounting is~~will be~~ effective immediately and retrospectively, together with the requirement to disclose that it has been applied. The targeted disclosure requirements will be effective for annual periods beginning on or after 1 January 2023. Section 2 of this ~~D~~ECA provides a brief description of the Amendments.

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1 *International Tax Reform – Pillar Two Model Rules* (Proposed Amendments to IAS 12)

2 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685)

3 ED/2023/1 *International Tax Reform–Pillar Two Model Rules: Proposed Amendments to IAS 12*

4 Final Comment Letter – *International Tax Reform – Pillar Two Model Rules: Amendments to IAS 12*

Scope of the adoption assessment

6. The Amendments to the Basis for Conclusions of IAS 12 *Income Taxes* have not been included as part of the UKEB's assessment as UK-adopted international accounting standards comprise only the mandatory[5] sections of standards.

7. This ~~D~~ECA does not therefore consider any amendments to the IAS 12 Basis for Conclusions.

Structure of the assessment

8. We have presented our analysis in the following sections:

   a) **Section 1:** describes UK statutory requirements for adoption of new or amended international accounting standards; and

   b) **Section 2:** assesses whether the Amendments meet the criteria in Section 1.

Do the Amendments lead to a significant change in accounting practice?

9. A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a "*significant change in accounting practice*", is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

   a) "*carry out a review of the impact of the adoption of the standard; and*

   b) *publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)*".

10. **Section 2** of the ~~D~~ECA assesses whether the Amendments lead to a significant change in accounting practice and concludes that they do not.

[5] Mandatory pronouncements are International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations and mandatory application guidance. Non-mandatory guidance includes the basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the introduction to the IASB yearly bound volumes.

1. ~~Section 1:~~ UK statutory requirements for adoption

UK statutory requirements

1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:

a) "*the standard*[6] *is not contrary to either of the following principles—*

i. *an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;*

ii. *consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;*

b) *the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and*

c) *the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.*"

1.2 This ~~D~~ECA assesses the criteria above in the following order:

a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (SI 2019/685 Regulation 7(1)(c)).

b) Whether the Amendments are not contrary to the principle that an entity's accounts must give a true and fair view (SI 2019/685 Regulation 7(1)(a)).

[6] The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (Standing Interpretations Committee / International Financial Reporting Interpretations Committee interpretations) issued or adopted by the IASB. This ~~D~~ECA relates to amendments to those standards.

c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). SI 2019/685 Regulation 7(2) includes specific areas to consider for this assessment. They are:

i. whether the Amendments are likely to improve the quality of financial reporting;

ii. the costs and benefits that are likely to result from the use of the Amendments; and

iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, reliability, understandability and comparability[7]

1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users[8] or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.

1.4 Financial information is **reliable** if, within the bounds of materiality, it:

a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

b) is complete; and

c) is free from material error and bias.

1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.

1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

1.7 In conducting our overall assessment against the technical accounting criteria we are required to adopt an absolute, rather than a relative, approach. Our assessment is therefore an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?)

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7 These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

8 In the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB, the users of financial reports include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While the UK has not adopted this *Framework*, in this document, 'users' is taken to have a similar meaning.

rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the Amendments uses comparative language (e.g. 'enhances comparability'), this does not mean that our objective is to reflect a real comparison in relative terms. Instead, our objective is to explain that any individual aspect or requirement of the Amendments has the potential to "*enhance*" one or more of the qualitative characteristics. Consideration of whether the Amendments are likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

1.8 As noted above, the first adoption criterion set out in SI 2019/685 Regulation 7(1) requires that an international accounting standard can be adopted only if:

> "*[…] the standard is not contrary to either of the following principles—*
>
> a) *an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;*
>
> b) *consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; […]*"

1.9 For the sake of brevity, we refer to our assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is not contrary to the true and fair principle. In other words, it is an ex-ante assessment. We have therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 Our approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including its interaction with other UK-adopted international accounting standards.

1.12 For the purposes of our assessment, we consider the requirement in IAS 1 *Presentation of Financial Statements* for financial statements to "*present fairly the financial position, financial performance and cash flows of an entity*"[9] to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

1.13 Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

~~[Draft]~~ Adoption decision

1.14 Section 2 of this ~~D~~ECA assesses whether the Amendments meet the statutory endorsement criteria set out in this Section.

1.15 On the basis of this assessment, ~~[and subject to any stakeholder feedback,]~~ the UKEB ~~[tentatively]~~ concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments for use in the UK.

9 Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

2. ~~Section 2:~~ Description and assessment of the Amendments

International Tax Reform–Pillar Two Model Rules (Amendments to IAS 12)	
Title and issue date of final amendments	*International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12), issued on 23 May 2023.
Origin	In December 2021, the Organisation for Economic Co-operation and Development (OECD) finalised the model rules for Pillar Two, one of the two pillars designed to address the tax challenges presented by the globalisation and digitalisation of the economy. The Pillar Two model rules introduce a minimum tax rate for multinational groups and entities with turnover of €750m or above. In jurisdictions where a group's effective tax rate is below 15%, the Pillar Two model rules require the entity to increase the tax it pays to that rate, by applying a top-up tax. Stakeholders expressed concerns to the IASB about the uncertainty over how to account for deferred tax arising from the top-up tax. Issues raised include: • whether Pillar Two top-up taxes are in all circumstances income taxes within the scope of IAS 12 *Income Taxes*; • which tax rate to use to measure deferred taxes; • whether additional temporary differences arise from the Pillar Two model rules, i.e. is it possible to link the recovery or settlement of the carrying amount of assets or liabilities directly to future top-up tax payments; and • whether domestic temporary differences should be remeasured. Some stakeholders also commented that accounting for deferred tax related to Pillar Two top-up tax could be extremely complex and that the costs of doing so might therefore outweigh the benefits to users. Stakeholders have further observed that this matter is urgent, as by summer 2023, some jurisdictions ~~are~~ will have already ~~in the process of enacting~~enacted or substantively enact~~eding~~ed Pillar Two legislation ~~and others,~~ including the UK~~, and further jurisdictions are expected to do so by summer 2023~~.

	In response, the IASB published the ED on 9 January 2023 and, having considered stakeholder feedback, issued the Amendments on 23 May 2023.
What has changed?	The Amendments have added new paragraphs as follows: • Paragraph 4A has been added to the Scope section of IAS 12. This paragraph clarifies that income taxes arising from the implementation of the Pillar Two model rules are within the scope of IAS 12. It requires an entity to apply a temporary exception from accounting for deferred taxes related to Pillar Two income taxes. • Paragraphs 88A to 88D have been added to the disclosure requirements in IAS 12. • Paragraph 88A requires an entity to disclose its application of the temporary exception under paragraph 4A. • Paragraph 88B requires an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes, once the tax is in effect. • Paragraphs 88C and 88D require an entity to disclose known or reasonably estimable qualitative and quantitative information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes in periods when relevant legislation has been enacted or substantively enacted, but is not yet in effect. They also provide guidance on the form that such information could take. When entities do not have known or reasonably estimable information on their exposure to Pillar Two top-up taxes at the end of the reporting period, they should make a statement to this effect and disclose the progress they have made in assessing their exposure. There were no consequential amendments to any other international accounting standards.
Transition requirements	The requirement for entities to apply the temporary exception is effective immediately and retrospectively. Entities must disclose that they have applied it (paragraphs 4A and 88A). For periods beginning on or after 1 January 2023, entities are required to make the disclosures required by paragraph 88B in periods in which Pillar Two legislation is in effect and those required by paragraphs 88C and 88D in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect.

	Entities are not required to make the disclosures under paragraphs 88B to 88D in financial statements for interim periods ending on or before 31 December 2023.

Technical accounting criteria assessment	
Relevance and reliability	In general, IAS 12 requires entities to account for deferred tax to recognise the future tax consequences inherent in the recognition of assets and liabilities. It might therefore appear that providing an exception from deferred tax accounting for Pillar Two top-up taxes could reduce the relevance and reliability of the financial information provided by an entity, as it will result in an entity omitting deferred tax information that would otherwise have been provided. However, stakeholders consider that the determination of deferred tax amounts in relation to Pillar Two top-up taxes could be impracticable. Entities do not yet have full understanding of the possible impact of the legislation in jurisdictions in which they operate, nor do they currently have clarity on how to apply IAS 12 to Pillar Two taxes. Further, calculating deferred tax assets and liabilities in relation to Pillar Two top-up taxes would be extremely complex. The variables and assumptions in this calculation are likely to be significant, requiring judgements that would be subjective and complex. For example, an entity would have to forecast its Pillar Two profits, adjusted under the numerous Pillar Two rules, its domestic tax payable and its resulting effective Pillar Two top-up tax across the useful lives of its assets and liabilities, potentially many years into the future. Therefore, if entities were to recognise deferred taxes related to Pillar Two income taxes, there could be a significant risk of misleading outcomes. Stakeholders have expressed the view that entities and their auditors need more time to determine how to apply the requirements of IAS 12 to deferred taxes arising from Pillar Two top-up tax. Until then, entities' recognition and measurement of deferred tax assets and liabilities would not necessarily be based on reliable information in relation to Pillar Two top-up taxes. A temporary exception therefore avoids the recognition of deferred tax balances that are not reliable and that do not, therefore, provide relevant information. It also preserves the relevance and reliability of those deferred tax assets and liabilities that are currently recognised in the accounts. Requiring entities to disclose that they have taken the exception will enable users to identify that an entity may have deferred tax liabilities or assets related to Pillar Two top-up taxes, which they have neither recognised nor disclosed within the financial statements. This disclosure will enhance the relevance of the financial information.

	Disclosures in periods when Pillar Two legislation is in effect In periods when Pillar Two legislation is in effect, entities will be required to disclose their current tax expense (income) relating to Pillar Two separately. Pillar Two is a significant international tax reform, and providing information on its current tax impact (income or expense) will be useful to users of accounts. As current tax expense (income) is calculated from known information, this disclosure could inform an assessment of possible future tax liabilities or assets as well as permitting users to evaluate past assessments. Disclosing this expense (income) separately will enhance the relevance of information provided, as it will aid users in assessing an entity's potential future exposure to Pillar Two top-up taxes. **Disclosures in periods when Pillar Two legislation is enacted or substantively enacted, but not yet in effect** In periods when the Pillar Two legislation is enacted or substantively enacted, but not yet in effect, entities will be required to provide quantitative and qualitative information that helps users understand an entity's exposure to Pillar Two top-up taxes at the end of the reporting period. Permitting entities to decide upon the information they provide to help users understand the entity's exposure to Pillar Two should result in entity-specific information. This approach has the potential to enhance the relevance of information provided on an entity's exposure to Pillar Two top-up taxes, because entities will be expected to provide users with the information that they consider represents their exposure most faithfully. It could also enhance the reliability of the information provided, as the approach should allow entities to make disclosures that take into account all the information at their disposal. When entities do not have known or reasonably estimable information on their exposure to Pillar Two top-up taxes at the end of the reporting period, they should make a statement to this effect and disclose the progress they have made in assessing their exposure. Providing this alternative for entities which do not have known or reasonably estimable information at the end of the reporting period avoids requiring entities to disclose information that is potentially misleading, thereby enhancing the overall relevance and reliability of the information provided.
Understandability	Deferred tax amounts that result from complex law, calculations and judgements, using information that may not be reliable and methodologies that are potentially not comparable, risk not being understandable and could potentially be misleading. Further, if entities were to account for deferred tax on Pillar Two top-up taxes, they would have to explain their methodologies, which could be extremely complex and not consistent between entities. For

	example, an entity may have to explain its decision-making on the recognition and measurement of temporary differences additional to those that exist between the carrying amounts of assets and liabilities in the statement of financial position and their domestic tax bases. The Amendments therefore have the potential to enhance understandability. **Disclosures in periods when Pillar Two legislation is in effect** The requirement to present any Pillar Two top-up tax separately will allow users to identify the current tax effect of Pillar Two top-up taxes easily, enhancing understandability. This will in part mitigate the absence of deferred tax accounting in relation to Pillar Two top-up taxes. **Disclosures in periods when Pillar Two legislation is enacted or substantively enacted, but not yet in effect** Entities are required to provide qualitative and quantitative information about their exposure to Pillar Two top-up taxes, whilst retaining scope to make decisions on the form of that information. An entity will therefore be able to apply the requirement to its own circumstances, providing users with entity-specific information and thereby enhancing understandability. These disclosure requirements will also go some way to mitigating the absence of deferred tax accounting.
Comparability	The mandatory temporary exception avoids the risk that entities will make diverse interpretations of IAS 12's requirements in relation to Pillar Two top-up taxes. It therefore helps avoid the inconsistent application of IAS 12, for example in whether and how to recognise and measure additional temporary differences, and therefore enhances comparability. Requiring entities to disclose that they have applied the exception will give users confidence in the comparability of deferred tax assets and liabilities across entities within and outside the scope of the Pillar Two legislation. **Disclosures in periods when Pillar Two legislation has been enacted or substantively enacted but is not yet in effect** The requirement is to disclose known or reasonably estimable information that helps users understand the entity's exposure to Pillar Two income taxes, so entities can present information that faithfully depicts their specific tax position, thereby enhancing the comparability of the information provided. The information provided by entities will not be uniform as the Amendments do not specify the detailed quantitative and qualitative disclosures required. However, uniformity does not necessarily equate to comparability, so the fact that the Amendments do not specify the detailed disclosures does not preclude comparability.

	Transition requirements Entities will be prohibited from accounting for deferred tax on Pillar Two top-up taxes due to the immediate and retrospective application of the Amendments, which will enhance the comparability of entities' financial positions across financial reporting periods. The comparability of other deferred tax assets and liabilities will be preserved, as they will not be combined with amounts that may not be relevant or reliable.
Conclusion	Overall, we conclude that the Amendments meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
True and fair view requirement	
Description	The previous section of this ~~D~~ECA concludes that the Amendments meet the technical accounting criteria, including that of reliability. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment therefore underpins the overall true and fair view assessment. In addition, the targeted disclosures to help users of accounts understand an entity's exposure to Pillar Two income taxes should support the true and fair view given by the accounts. The Amendments maintain the existing requirements for recognition and measurement of deferred tax assets and liabilities, and provide an exception for deferred tax accounting in relation only to Pillar Two top-up taxes. Consequently, the Amendments are narrow in scope and do not introduce new principles.
Conclusion	Our assessment has not identified any requirement of the Amendments, either alone or in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare. Overall, we conclude that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.

UK long term public good	
Description of entities that will be impacted	The Amendments will affect entities with consolidated turnover over €750m. Depending on exchange rate fluctuations, they will affect approximately 200 listed UK groups and companies, as well as a number of private UK groups and companies that prepare accounts under international accounting standards. They will also affect UK subsidiaries of qualifying foreign groups that prepare accounts under international accounting standards.
Do the amendments improve financial reporting?	The Amendments provide a mandatory temporary exception from accounting for deferred taxes related to Pillar Two income taxes. They will improve the quality of financial reporting because they: • avoid the recognition of unreliable deferred tax assets and liabilities in relation to Pillar Two top-up taxes; • avoid potential diversity of practice by removing the need for entities to interpret the IAS 12 requirements in relation to Pillar Two top-up taxes; and • ensure the provision of useful information on the expected and actual impact of Pillar Two top-up taxes through targeted disclosure requirements.
Costs for preparers and users	<u>Preparers:</u> Some preparers considered that accounting for deferred tax in relation to Pillar Two top-up taxes was impracticable, and therefore the Amendments were required irrespective of cost considerations. In that context, and given the Amendments are narrow in scope and will affect only a specified population of entities, we adopted a proportionate approach to the assessment of costs, estimating preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne. We assessed whether preparers would face costs related to: • familiarisation; • design of data collection processes; • IT system changes; • governance processes; • external audit; and • other costs. Preparers in scope of the Pillar Two legislation considered that they have started incurring or will incur significant, i.e. greater than negligible but less than material, **one-off costs** to comply with the

	Amendments. These were largely related to **familiarisation**, **the design of data collection processes** and **IT system changes**. Some preparers thought that the one-off incremental cost of complying with the Amendments would be increased by the fact that the accounting disclosures will be required before tax compliance processes are in place (i.e before the completion of the first Pillar Two tax return). Preparers further observed that initial one-off costs will vary depending on how a group organises its accounting systems, whether by jurisdiction, business unit or on another basis. Preparers considered that the Amendments would have a smaller but still significant impact on their ongoing costs, including additional **accounts preparation, changes in governance processes and external audit costs**. One preparer we interviewed considered that these costs could be absorbed into business-as-usual processes; another felt it was too early to take a view. We expect **other costs** to be negligible or nil. <u>Users</u>: Users of accounts confirmed to the UKEB that the costs arising to them as a result of the Amendments would be minimal, principally related to **familiarisation**.
Benefits for preparers and users	<u>Preparers:</u> The principal benefit for preparers is that they will not be required to account for deferred tax in relation to Pillar Two income taxes. Some preparers considered that accounting for deferred tax in relation to Pillar Two top-up taxes would be very difficult, and therefore considered that the savings from not doing so would outweigh the costs of making the disclosures required by the Amendments. As explained above, other preparers have confirmed to us that accounting for deferred tax in relation to Pillar Two top-up taxes could be wholly impracticable. Preparers agreed that they would welcome the Amendments being made permanent. However, even if they did not become permanent, preparers welcomed the additional lead time the Amendments would afford them for determining how to account for deferred tax in relation to Pillar Two top-up taxes. <u>Users:</u> Users welcomed the mandatory temporary exception, as it prohibits the provision of potentially misleading information. They considered the targeted disclosure requirements provided additional useful information. In the period in which the legislation is enacted or substantively enacted but not yet in effect, the disclosures will indicate a group's exposure to Pillar Two top-up taxes and the extent to which a group is prepared for implementation. Once the legislation is effective, they welcomed the separate disclosure of a group's current tax expense (income) in relation to Pillar Two top-up taxes.

Whether the Amendments are likely to have an adverse effect on the UK economy	The Amendments are not likely to have an adverse effect on the UK economy in that the Amendments improve entities' efficiency. The Amendments should ensure that accounting requirements will at least not hinder implementation of the Pillar Two legislation. We have not identified any factors that would indicate that the Amendments would lead to changes in business practices or operations that are detrimental to the UK economy. In addition, we do not expect the accounting under the Amendments to affect economic behaviour negatively. These assertions were confirmed by engagement with preparers and users. As a result, the Amendments are not likely to have an adverse effect on the UK economy, including on economic growth.
Conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

Do the Amendments lead to a significant change in accounting practice?

2.1 The UKEB is required to assess whether or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

2.2 The Amendments do not fundamentally change the basic requirements of IAS 12 or introduce new principles, nor do they impact the majority of entities. In addition, the exception from accounting for deferred taxes related to Pillar Two income taxes is only temporary, and the IASB has stated that it will monitor developments related to the implementation of the Pillar Two model rules to determine when to do further work.

2.3 As a result, the UKEB ~~[tentatively]~~ concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

Appendix A: Glossary

Term	Description
The Amendments	*International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12)
~~D~~ECA	~~Draft~~ Endorsement Criteria Assessment
ED	Exposure Draft
FCL	Final Comment Letter
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
OECD	Organisation for Economic Co-operation and Development
SI	Statutory Instrument
SMEs	Small and Medium-sized Entities
UKEB	UK Endorsement Board

UK Endorsement Board

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UKEB FEEDBACK STATEMENT

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

Endorsement Criteria Assessment (ECA)

July 2023

UK Endorsement Board

The UK Endorsement Board (UKEB) is responsible for the 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.

UK Endorsement Board

Contents

Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft Endorsement Criteria Assessment (ECA) of *International Tax Reform – Pillar Two Model Rules* (Amendments to IAS 12) and where relevant explains how the UKEB has addressed those views in the final ECA.

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Description of the Amendments to IAS 12

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 the Amendments.

They provide a **mandatory temporary exception**, applicable immediately and retrospectively, from accounting for deferred tax in relation to Pillar Two top-up taxes. Entities must disclose that they have applied that exception.

UKEB

Description of the Amendments to IAS 12

Once the tax is in effect, an entity must disclose its current tax income/expense in relation to Pillar Two top-up taxes separately.

For periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, entities would be required to disclose "*information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes*". In meeting that disclosure objective, an entity should disclose known or reasonably estimable quantitative and qualitative information about its exposure at the end of a reporting period.

Entities which do not have such information about their exposure to Pillar Two income taxes must disclose that fact, together with information on progress made in assessing the entity's exposure.

The targeted disclosure requirements for periods in which Pillar Two is enacted or substantively enacted but not yet in effect are effective for annual periods beginning 1 January 2023.

UKEB public consultation on the draft ECA

- Stakeholders informed us that the Amendments were urgent as some jurisdictions, including the UK, have enacted or substantively enacted Pillar Two legislation before summer 2023. The draft ECA was therefore published for consultation for 14 days, from 26 June to 10 July 2023.
- During the consultation period, the UKEB encouraged stakeholders to respond to the draft ECA through News Alerts, LinkedIn posts and the UKEB website.
- A total of seven formal responses were received.
- Stakeholder submissions received were published on the UKEB website.
- All comments and views were considered in reaching the UKEB's final assessment of the Amendments.

Stakeholder type	Number of responses
Accounting firms	6
Users of accounts	0
Preparers of accounts	1
Total	**7**

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Overall assessment

Respondents to the draft ECA concur with the UKEB's assessment based on the adoption criteria in paragraph 1 of Regulation 7 SI 2019/685 and are fully supportive of the adoption of the Amendments.

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Detailed assessment—Comments from respondents

UKEB tentative assessment	Stakeholder views	UKEB final assessment
Technical accounting criteria assessment		
The draft ECA tentatively concluded that the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1) of SI 2019/685.	All respondents were supportive of the UKEB's tentative conclusion.	Consistent with the tentative assessment.
True and fair view assessment		
The draft ECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.	All respondents were supportive of the UKEB's tentative conclusion.	Consistent with the tentative assessment.

Detailed assessment—Comments from respondents

UKEB tentative assessment	Stakeholder views	UKEB final assessment
UK long-term public good assessment		
The draft ECA tentatively concluded that, having considered all relevant aspects, including the balance of the costs and benefits of implementing the Amendments, the Amendments were likely to be conducive to the UK long-term public good as required by Regulation 7(1) of SI 2019/685.	All respondents were supportive of the UKEB's tentative conclusion.	Consistent with the tentative assessment.

UKEB

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's draft Endorsement Criteria Assessment on the IASB's Amendments to IAS 12: *International Tax Reform – Pillar Two Model Rules* 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.

UK Endorsement Board

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UK Endorsement Board

DRAFT Due Process Compliance Statement: *International Tax Reform – Pillar Two Model Rules* (Amendments to IAS 12)

Title of the Amendments	Issue dates
International Tax Reform–Pillar Two Model Rules (Amendments to IAS 12)	• Exposure Draft ED/2023/01 published on 9 January 2023 • Final amendments published 23 May 2023 • Temporary mandatory exception effective immediately and retrospectively; targeted disclosure requirements effective for annual periods beginning on or after 1 January 2023.

General UKEB requirements: The UKEB adopts international accounting standards for use within the UK, in accordance with SI 2019/685, and applies its own processes before it decides to endorse and adopt a new or amended international accounting standard.

Endorsement process			
Step	**Mandatory / optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
	Project preparation		
Added to UKEB technical work plan [Due Process Handbook (Handbook) [4.29]	Mandatory	Project is included in the UKEB published technical work plan.	**Complete:** the Amendments were included in the UKEB technical work plan published in December 2022.

[1] In accordance with the Due Process Handbook.

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project preparation (continued)			
Project Initiation Plan (PIP) [Handbook 6.12 to 6.16]	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for endorsement (key milestones and timing) proportionate to the project	**Complete:** taking a proportionate approach, the Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities. The PIP was approved at the 23 February 2023 Board meeting.
	Mandatory	Outreach plan for stakeholders and communication approach outlined	**Complete:** Due to the narrow-scope nature of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA) as well as consulting with advisory groups on the balance of costs and benefits of the Amendments.
	Mandatory	Resources allocated	**Complete:** one project manager supported and overseen by one senior project director, with communications and economics team support.

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UK Endorsement Board

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project preparation (continued)			
Project Initiation Plan (PIP) [Handbook 6.12 to 6.16]	Mandatory	Assessment of whether to set up an ad-hoc advisory group	**Complete:** assessed. Taking a proportionate approach, an ad-hoc advisory group was not considered necessary due to the narrow scope nature of the Amendments.
	Mandatory	UKEB Board public meeting held to approve PIP	**Complete:** the PIP was approved at the 23 February 2023 Board meeting.
	Optional	UKEB education or initial assessment	**Complete:** The Board was provided with an update on the project at the 27 April 2023 Board meeting, which covered the IASB's 11 April 2023 discussion and its tentative decisions taken on the IASB staff proposals in the light of feedback received on the Exposure Draft.
Communications			
Public board meetings **[Handbook 4.10]**	Mandatory	UKEB public meetings held to discuss technical project	**Complete:** The Board approved the Project Initiation Plan (PIP) at its 27 April 2023 meeting. It approved the draft ECA for consultation at its 22 June meeting. [The Board approved the Adoption Package, consisting of the final Endorsement Criteria Assessment (ECA), the Feedback Statement, the [draft] Due Process Compliance Statement and the [draft] Adoption Statement for the Amendments, at its meeting on 13 July 2023.]

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Communications (continued)			
Secretariat papers [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available on a timely basis.	**Complete:** The UKEB's June meeting papers were published on the UKEB website one week before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website. Subscribers were notified via the UKEB News Alerts. However, to ensure the Board could reach an adoption decision in sufficient time to permit preparers with June interims to use the temporary mandatory exception from deferred tax accounting in relation to Pillar Two if the Amendments were adopted, the Board sanctioned a shortened (14-day) comment period for the draft comment letter (DCL) from 26 June 2023 to 10 July 2023. In accordance with handbook paragraph 4.20, the delivery of a late paper was agreed in public at the 23 February 2023 Board meeting.
Project webpage [Handbook 4.25(b)]	Mandatory	Update UKEB website	**Complete:** The project webpage has been updated regularly on a timely basis.

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Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Communications (continued)			
Subscriber alerts [Handbook 4.24]	Optional	Evidence that subscriber alerts have occurred	**Complete:** Subscribers were alerted via email 5 days before each Board meeting, with links to the agenda, papers and the option to dial in to observe the discussion. A News Alert was issued, alerting subscribers to the publication of the DECA. As agreed by the Board, for the July meeting, subscribers were alerted to the meeting and agenda 5 days beforehand and to the fact that papers would be issued closer to the meeting.
Desk-based research			
Desk-based research [Handbook 6.17]	Optional	Review of relevant documentation	**Complete:** the Secretariat has reviewed: • The IASB's work on the Amendments (staff papers, ED); • The Basis for Conclusions to the ED and Dissenting Opinion; • Comment letters on the ED received by the IASB from UK stakeholders including the UKEB; • Other standard-setters' views; and • Accounting manuals and press releases for guidance and illustrative examples.

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Outreach			
Consult with a representative range of stakeholders prior to adoption [Handbook 6.18 to 6.21]	Mandatory	Evidence of consultation	Due to the narrow-scope nature of the Amendments, consultation activities were focused on obtaining responses to the Draft Endorsement Criteria Assessment (DECA) and consultation with advisory groups. The UKEB received seven comment letters. The comment letters received were published on the UKEB website.
Draft Endorsement Criteria Assessment (DECA)			
DECA [6.23 to 6.29]	Mandatory	UKEB sets comment period for response of DECA	**Complete:** Given the urgency of the Amendments, at its 23 February 2023 meeting, the Board decided that the comment period for public consultation should be 14 days and approved the overall project plan subject to confirmation by the 28 March 2023 meeting of the Preparer Advisory Group and the 30 March 2023 meeting of the Accounting Firms and Institutes Advisory Group, which was received. The DECA was published for consultation on 26 June 2023 (comment period deadline: 10 July 2023).

UK Endorsement Board

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Draft Endorsement Criteria Assessment (DECA) (continued)			
DECA [6.23 to 6.29] (continued)	Mandatory	Review and approval at the UKEB public meeting	**Complete:** Reviewed and approved at the Board meeting on 22 June 2023.
	Mandatory	DECA posted on website for public consultation	**Complete:** The Secretariat published the approved DECA and Invitation to Comment on the UKEB website for a 10-day consultation period from 26 June 2023 to 10 July 2023.
	Mandatory	News Alert to announce publication	**Complete:** A News Alert was published on 26 June 2023 calling for comments. A link to the DECA was sent out to the UKEB advisory groups.
Project finalisation and project closure			
Final Endorsement Criteria Assessment (ECA) [Handbook 4.25(e)]	Mandatory	Public responses on DECA assessed and posted on website	**[Complete:** The UKEB received seven comment letters which were published on the UKEB website. All responses were assessed, reflected as appropriate in the final ECA and summarised in the Feedback Statement.]

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project finalisation and project closure (continued)			
Final Endorsement Criteria Assessment (ECA) [Handbook 6.40 to 6.48] **(continued)**	Mandatory	Final ECA approved by the UKEB in public meeting	**[Complete:** A draft of the final ECA was presented for approval to the Board at its 13 June 2023 public meeting. The Board approved the final ECA, [subject to suggested amendments.]]
	Mandatory	Publish final ECA on the UKEB website	**[Complete:** The final ECA was published on the UKEB website on XX July 2023.]
Feedback Statement [Handbook 6.33 to 6.48]	Mandatory	Feedback Statement approved by the UKEB in a public meeting	**Complete:** A draft of the Feedback Statement was presented for approval to the Board at its 13 July 2023 public meeting. [The Board approved the draft final Feedback Statement, subject to editorial changes.]
	Mandatory	Feedback Statement posted on the UKEB website	**[Complete:** The final Feedback Statement was published on the UKEB website on XX July 2023.]
	Mandatory	News alert published to announce publication	**[Complete:** A News Alert announcing publication of the Feedback Statement was published on XX July 2023.]

UK Endorsement Board

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project finalisation and project closure (continued)			
Due Process Compliance Statement (DPCS) [Handbook 6.37 to 6.39]	Mandatory	DPCS approved by the UKEB in public meeting	**[Complete:** A [draft] DPCS was presented for approval to the Board at its 13 July 2023 public meeting. A final DPCS was presented for noting at the Board's 21 September 2023 meeting.]
	Mandatory	DPCS posted on the UKEB website	**[Complete:** The final DPCS was published on the UKEB website after the September 2023 Board meeting.]
Adoption Statement [Handbook 6.40 to 6.48]	Mandatory	Adoption Statement approved by the UKEB in public meeting	**[Complete**: The Adoption Statement for the Amendments was approved by the Board at its 13 July 2023 public meeting.]
	Mandatory	Adoption Statement posted on the UKEB website	**[Complete:** The final Adoption Statement for the Amendments was published on 21 July 2023.]
	Mandatory	News Alert published to announce publication	**[Complete:** The News Alert announcing adoption of the Amendments was published on 21 July 2023.]

UK Endorsement Board

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project finalisation and project closure (continued)			
Voting on adoption of the Amendments [Handbook 6.42 to 6.48]	Mandatory	Tentative vote	**[Complete:** Tentative vote took place at the 13 July Board meeting based on the discussion of the Adoption Package, which included the final draft ECA, the Feedback Statement, the DPCS, the draft Adoption Statement for the Amendments and the text of the UK-adopted international accounting standard *International Tax Reform–Pillar Two Model Rules* (Amendments to IAS 12). The vote was indicative only.]
	Mandatory	Evidence of written vote (in paper or electronic form)	**[Complete:** The Adoption Statement and voting forms were sent to the Board for voting (accompanied by the text of the Amendments to be adopted) on 14 July 2023 (written forms due by 19 July 2023). The vote was formalised via Board members signing the formal voting forms for the Amendments.]
	Mandatory	News Alert published to announce the outcome of the vote within 3 working days of the formal vote	**[Complete:** The News Alert announcing adoption of the Amendments was published on XX July 2023.]

Conclusion
This document sets out the main due process activities performed as part of the UKEB's project to endorse the Amendments. To meet the timeline for endorsement required by stakeholders, the DECA was issued for a 14-day comment period, which complies with the requirement set out in the Handbook paragraph 6.29. In the Secretariat's opinion, overall, this project complies with the applicable due process steps, as set out in the Handbook at the time of writing.

UKEB
UK Endorsement Board

Adoption Statement

International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendments to international accounting standards published on 23 May 2023 by the International Accounting Standards Board (IASB), for use within the United Kingdom:

   a) *International Tax Reform—Pillar Two Model Rules* (Amendments to IAS 12)

3. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the standard[3] is not contrary to either of the following principles—

      i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

      ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

   b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and

   c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

1 Accessible here: https://www.legislation.gov.uk/uksi/2021/609/contents/made
2 Accessible here: https://www.legislation.gov.uk/uksi/2019/685/contents
3 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). This Adoption Statement relates to amendments to those standards.

4. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.

5. The exception, and the requirement to disclose that the exception has been applied, provided by the adopted amendments to international accounting standards in paragraph 2:

   a) must be used immediately and retrospectively;

6. The targeted disclosure requirements provided by the adopted amendments to international accounting standards in paragraph 2:

   a) must be used for annual reporting periods beginning on or after 1 January 2023.

7. The text of the adopted amendments to international accounting standards is set out in the annex to this statement.

UKEB
UK Endorsement Board

Approval by the UKEB Board

Adoption of International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) published by the IASB in May 2023 was approved for adoption by [ ] members of the UK Endorsement Board.

Pauline Wallace	Chair
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Kathryn Cearns	
Katherine Coates	
Robin Cohen	
Edward Knapp	
Paul Lee	
Giles Mullins	
Liz Murrall	
Sandra Thompson	
Michael Wells	

[Date]

UK Endorsement Board

Department for Business & Trade

UK-adopted international accounting standards

International Tax Reform—Pillar Two Model Rules
Amendments to IAS 12

'UK-adopted international accounting standards' are issued by the UKEB in respect of their application in the United Kingdom and have not been prepared or endorsed by the International Accounting Standards Board.

Terms of Use for Users

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   (i) the User's Professional Use, or

   (ii) private study and education

   Professional Use: means use of 'UK-adopted international accounting standards' in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS as adopted by the UK for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

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4. Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works from the 'UK-adopted international accounting standards' save as otherwise expressly permitted in this notice.

5. For further details about licensing the IFRS Foundation's intellectual property please contact permissions@ifrs.org.

International Tax Reform—Pillar Two Model Rules
Amendments to IAS 12

Amendments to IAS 12 *Income Taxes*

Paragraphs 4A, 88A–88D (including their related heading and the box after paragraph 88D) and 98M are added.

Scope

...

4A This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the income taxes arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

...

Disclosure

...

International tax reform—Pillar Two model rules

88A An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).

88B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.

88C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

88D To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Examples illustrating paragraphs 88C–88D
Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include: (a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how the entity's average effective tax rate would have changed if Pillar Two legislation had been in effect.

...

Effective date

...

98M *International Tax Reform—Pillar Two Model Rules*, issued in May 2023, added paragraphs 4A and 88A–88D. An entity shall:

(a) apply paragraphs 4A and 88A immediately upon the issue of these amendments and retrospectively in accordance with IAS 8; and

(b) apply paragraphs 88B–88D for annual reporting periods beginning on or after 1 January 2023. An entity is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 December 2023.