UKEB UK Endorsement Board

Appendix A: Project Initiation Plan

Project Type	Influencing, endorsement and adoption
Project Scope	Narrow-scope

Purpose

A1. This paper sets out the plan to influence and to assess whether to adopt[1] the narrow-scope Amendments *International Tax Reform – Pillar Two Model Rules[2] to IAS 12 Income Taxes* (the Amendments), currently issued by the IASB as an Exposure Draft (ED).

A2. The UKEB's statutory functions mean that it must consider the Amendments against the statutory adoption criteria before their formal adoption for use in the UK. UK entities cannot use the Amendments until formal adoption has taken place.

A3. The Organisation for Economic Co-Operation and Development (OECD) Pillar Two model rules propose a worldwide 15% tax rate, which the UK is likely to enact by summer 2023. Stakeholders have expressed concerns that it is not clear how IAS 12 applies to Pillar Two taxes and that accounting for deferred tax arising from the Pillar Two model rules would not be practicable and could lead to diversity in practice. Given the urgency of the Amendments and the IASB's accelerated timetable, this PIP addresses both the influencing and the endorsement and adoption stages of the project together.

Background

A4. In December 2021, the 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.

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1 The UK's statutory requirements for adoption of international accounting standards are set out in the *International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations* SI 2019/685.

2 The ED and Basis for Conclusions can be accessed here: https://www.ifrs.org/content/dam/ifrs/project/international-tax-reform-pillar-two-model-rules/exposure-draft-and-comment-letters/iasb-ed-2023-international-tax-reform-pillar-two.pdf

A5. 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.

A6. Stakeholders have expressed concerns to the IASB around whether tax arising under the model rules is in all circumstances an income tax within the scope of IAS 12, and around the uncertainty over how to account for deferred tax arising from the top-up tax. Questions raised include:

- 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.

A7. Some stakeholders have also commented that accounting for deferred tax arising from Pillar Two top-up tax could be extremely complex and that the costs of doing so might therefore outweigh the benefits to users.

A8. Stakeholders have further observed that this matter is urgent, as some jurisdictions are already in the process of enacting or substantively enacting Pillar Two legislation and others, including the UK, are expected to do so by summer 2023.

A9. In response, the IASB published the ED proposing to amend IAS 12 on 9 January 2023. The ED seeks to provide relief for affected entities and avoid inconsistent application of IAS 12.

Description of the Amendments to IAS 12

A10. The proposed Amendments to IAS 12 are described briefly in the table below.

<table>
<tr><th colspan="2">Narrow-scope Amendments to IAS 12: International Tax Reform – Pillar Two model rules</th></tr>
<tr><td>Issued for public comment</td><td>Exposure Draft ED/2023/1 International Tax Reform – Pillar Two model rules was issued for public comment on 9 January 2023. The 60-day comment period closes on 10 March 2023.</td></tr>
<tr><td>Origin</td><td>See Background paragraphs A4 to A9 above.</td></tr>
<tr><td>What has changed?</td><td>The Amendments add new paragraphs as follows:

Paragraph 4A would be 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 but would require an entity to apply a temporary exception from accounting for deferred taxes related to Pillar Two income taxes.
Paragraphs 88A to 88C would be added to IAS 12's disclosure requirements.
Paragraph 88A would require an entity to disclose its application of the temporary exception under paragraph 4A.
Once the model rules are effective, paragraph 88B would require an entity to disclose its current tax expense or income relating to Pillar Two income taxes separately.
In periods in which the model rules have been enacted or substantively enacted but are not yet effective, 88C would require an entity to disclose:

Information on the jurisdictions where it operates and which have enacted or substantively enacted Pillar Two legislation;
The jurisdictions where its effective tax rate, calculated under IAS 12 paragraph 86, for the current period is below 15%, and the tax expense or income and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average tax rate;
Whether its assessments indicate that there are jurisdictions where (a) its effective tax rate as calculated above under IAS 12 paragraph 86 would be below 15%, but for Pillar Two purposes it would not be exposed to paying a top-up tax, and (b) where its effective tax rate as calculated under IAS 12 paragraph 86 would be above 15% but for Pillar Two purposes it would be exposed to paying a top-up tax.

New paragraph 98M proposes the effective date for the changes.

There are no consequential amendments to any other IFRS Accounting Standards.</td></tr>
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Narrow-scope Amendments to IAS 12: International Tax Reform – Pillar Two model rules	
Transition requirements	If the UKEB adopts the Amendments, the requirement for entities to apply the temporary exception and to disclose that they are applying it (paragraphs 4A and 88A) would be effective immediately and retrospectively. For periods beginning on or after 1 January 2023, entities should separately disclose current tax expense or income relating to the Pillar Two model rules (paragraph 88B) and should also make the disclosures required in respect of periods when legislation has been enacted but is not yet effective (paragraph 88C).

Project plan rationale

A11. The following considerations have shaped the project plan.

The Amendments are narrow in scope

A12. The Amendments require affected groups – those with turnover of €750m or above – to disclose current tax income or expense in respect of Pillar Two top-up tax separately. However, they introduce a temporary exception from deferred tax accounting in respect of that specific tax.

A13. Groups would therefore in other respects maintain their current approach to accounting for deferred tax. The Amendments are intended to provide users with insight into a group's exposure to paying top-up tax without undue cost or effort for preparers, while preventing diversity in accounting for deferred tax on Pillar Two.

The need for clarity is urgent

A14. Some jurisdictions, including the UK, plan to enact or to substantively enact the Pillar Two model rules into domestic legislation by summer 2023.

A15. Given the expected timetables for enactment of the legislation and issue of the Amendments, if the UKEB does not adopt the Amendments as soon as possible, the proposed exception from deferred tax accounting may not be available to groups with summer year ends or for the interim reports of groups with December year ends.

A16. In order to assess the potential number of groups affected, we have carried out preliminary profiling on IFRS reporters with May to September year ends listed on the London Stock Exchange, which are likely to be in scope of the Pillar Two model rules. Of the 26 reporters identified, two reporters typically have their financial statements approved in July, one in August and nine in September. The rest typically have their financial statements approved in October or later.

Year end date	Number of groups	Date of approval of financial statements	Number of groups
May	1	July	1
June	9	July	1
		August	1
		September	7
July	2	September	1
		October	1
August	3	September	1
		October	2
September	11	November	8
		December	3
Total	**26**		**26**

A17. Although not explicitly addressed by the relevant legislation [SI 2019/685], our understanding[3] is that if UK adoption occurs before the approval of the relevant financial statements, entities are able to apply a standard or amendment issued by the IASB, where that standard or amendment itself permits or requires early adoption.

A18. The ED paragraph 98M(a) requires both the exception, and disclosure that the exception has been taken (paragraphs 4A and 88A), to be "*immediately and retrospectively*" applied. It requires the additional proposed disclosures (paragraphs 88B–88C) to be applied for annual reporting periods beginning on or after 1 January 2023. We consider therefore that the requirements of paragraphs 4A and 88A would need to be applied prior to the date of adoption.

A19. If the Amendments are adopted before a group's financial statements are approved, the group should apply the exception from deferred tax accounting,

[3] The Secretariat's expectation is that the UK position should be consistent with that in the EU.

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disclose that it has done so and make the disclosures required by paragraphs 88B and 88C as applicable.

Project milestones

A20. A proportionate approach is proposed, incorporating the mandatory milestones listed in paragraph 6.11 of the UKEB's Due Process Handbook (Handbook)[4]. The table below provides a brief description of the work we have done and that we intend to do as part of this project.

Milestone/activity	Brief description	Status
Influencing		
Technical project added to UKEB technical work plan (mandatory) [Handbook 4.30(d)]	Added to UKEB technical work plan.	Completed.
Education session on tax reform (optional) [Handbook 4.10]	HMRC Pillar Two policy experts provided an explanation of the background to the reform and of how Pillar Two works.	Completed at the January 2023 private Board meeting.
Desk-based research (optional) [Handbook 5.9]	The Secretariat has reviewed: • The OECD model rules • OECD guidance on the Pillar Two model rules • UK draft legislation • The IASB's work on the Amendments (staff papers, ED) • The Basis for Conclusions to the ED • Accounting manuals and press releases for guidance and illustrative examples	In progress.

4 Due Process Handbook (kc-usercontent.com)

Milestone/activity	Brief description	Status
Outreach activities (mandatory) [Handbook 5.11]	We have gathered input from the Investors Advisory Group, and held roundtables with (a) preparers and investors and (b) accounting firms and institutes. We have also distributed a questionnaire to selected preparers requesting information on the costs and benefits of endorsing or not endorsing the Amendments.	Completed.
Education session on accounting Amendments (optional) [Handbook 4.10]	Short education session on the need for the Amendments with UKEB Secretariat team.	To be brought to February 2023 private Board meeting
Project Initiation Plan (mandatory) [Handbook 5.4 to 5.8 and 5.13 to 5.14]	This paper.	To be brought to February 2023 Board meeting
DCL published for comment (generally mandatory) [Handbook paragraphs 5.13 to 5.17 and 3.9[5]]	The Secretariat will publish the approved DCL for public comment, albeit for a short period (see timelines below). The Secretariat will encourage responses by alerting in particular roundtable participants and advisory groups. At its February meeting, the Board approved a late paper to agree the FCL, in order to accommodate the 7-day comment period whilst still permitting submission of the FCL by the IASB's deadline.	As soon as possible after the February 2023 Board meeting

5 Paragraph 3.9 states: "The UKEB may decide not to undertake a 'mandatory' milestone for a particular project (refer to paragraph 3.6 above). The UKEB should discuss the reasons for this decision at a public Board meeting. The PIP of the applicable project should clearly outline these reasons."

Milestone/activity	Brief description	Status
Additional Board meeting scheduled to agree FCL	Extraordinary meeting scheduled to approve FCL for publication.	Scheduled for 7 March
UKEB submits FCL before IASB comment period ends (mandatory). [Handbook paragraph 5.18]	IASB comment period ends 10 March 2023.	To be completed.
Feedback statement and due process compliance statement for influencing stage of project (mandatory) [Handbook paragraphs 5.19 and 5.23]	Secretariat publishes Feedback Statement and Due Process Compliance Statement on UKEB website.	To be completed.
Endorsement and adoption (after IASB redeliberates and publishes final Amendments)		
Desk-based research (optional) [Handbook 6.17]	The Secretariat will review: The IASB's further work on the Amendments Accounting manuals and press releases for guidance and illustrative examples Comment letters on the ED received by the IASB from UK stakeholders. Comment letters on the ED received by the UKEB.	To be completed.
Issue of a DECA (mandatory) [Handbook 6.23 to 6.26]	The Secretariat will develop a draft Endorsement Criteria Assessment (DECA) to assess whether the Amendments meet the UK's statutory requirements for adoption.	To be completed.

Milestone/activity	Brief description	Status
Outreach activities (mandatory) [Handbook 6.18 to 6.22]	Publish DECA for stakeholder comment on the UKEB website. The Secretariat also intend to reach out directly to UK stakeholders who have previously provided feedback to the IASB and/or UKEB. We will also discuss the DECA with the UKEB advisory groups, as timing allows.	To be completed.
Consultation period for the DECA (mandatory) [Handbook 6.28 and 6.29 and 3.9]	The DECA will be issued for comment for 14 days, the minimum time to consult on a DECA.	To be completed.
Project closure [Handbook 6.30]	The project closure process for endorsement projects will comprise the following mandatory steps. Preparation of an adoption package by the Secretariat comprising: the final Endorsement Criteria Assessment (ECA), Feedback Statement, the Adoption Statement, the text of the UK-adopted international accounting standard amendments, and a Due Process Compliance Statement for the project; and Voting on the adoption of the Amendments.	To be completed.

Resources allocated

A21. On the basis of this project plan, we consider that a project team consisting of one Project Manager, technical support and oversight from a Senior Project Director, input will be obtained from the economics team for the long-term public good assessment, and communications support should ensure the project timelines are achievable.

Setting up an ad-hoc advisory group is not necessary

A22. Given the narrow-scope nature of the Amendments and initial feedback, it is not considered necessary to set up a separate, ad-hoc advisory group specific for this project. However, in order to gather feedback, we have held project-specific roundtables for (a) accounting firms and institutes and (b) preparers and investors.

Project timelines

A23. The project timelines address both the influencing and the endorsement and adoption phases of the project.

Influencing stage

A24. The DCL will be published with a seven-day comment period. This option is feasible as the Handbook does not stipulate a minimum comment period for a DCL. Taking this option allows for public input to the comment letter while enabling the Board to meet the IASB's accelerated timetable.

A25. However, the comment period may be too short to allow many stakeholders to respond in a meaningful way. Some stakeholders may miss the comment deadline. The Secretariat will prepare a Feedback Statement.

Endorsement and adoption stage

A26. The plan proposes an endorsement decision in July, assuming the IASB publishes the Amendments by early June.

A27. This timeline would minimise the risk that groups wishing to apply the Amendments (in particular the exception from deferred tax accounting for Pillar Two top-up taxes) would be unable to do so, should the Board decide to adopt them. For example, reporters with May, June or July period ends, whose financial statements are approved in August or September – or even at the very end of July – would be able to apply the Amendments.

A28. The disadvantage would be that the Draft Endorsement Criteria Assessment (DECA) would be published with a significantly reduced timeframe for preparation and public consultation. Relevant points could therefore be omitted from the final ECA.]

A29. If the IASB does not issue the Amendments by early June (contrary to the current expectation), the project plan would be reassessed and new proposals brought back to the Board.

Influencing Phase

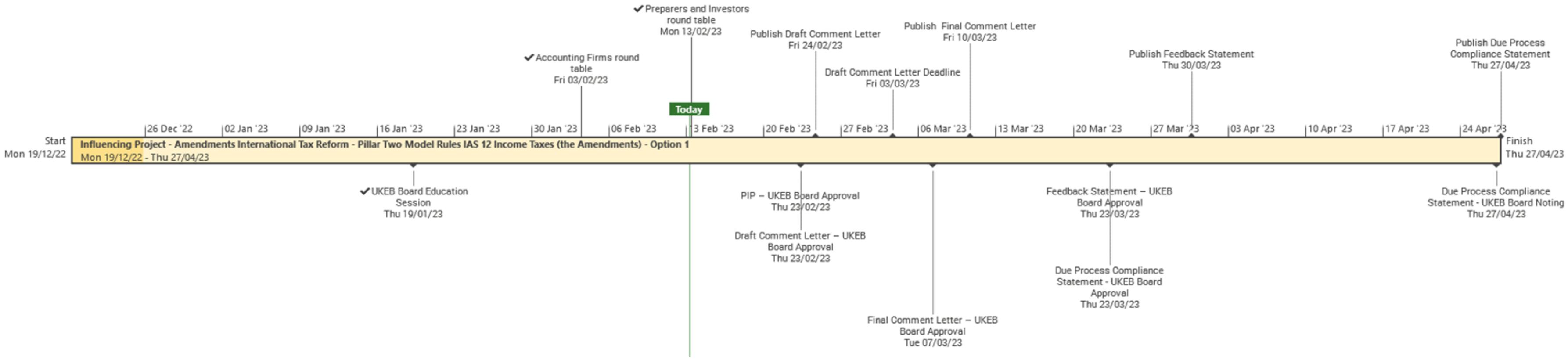
Date	Milestone
	Influencing phase
9 January 2023	IASB published Exposure Draft with 60-day comment period
19 January 2023	**Board:** Introductory discussion of proposed Amendments (public meeting) and education session on tax reform (private meeting)
February 2023	Outreach including roundtables
23 February 2023	**Board:** Discusses and approves PIP and DCL. **Secretariat:** Revises DCL for Board comments.
24 February 2023	**Secretariat:** Publishes DCL (7-day comment period from 24 February to 3 March)
Late February – early March	**Secretariat:** Alerts key stakeholders to publication of DCL
7 March 2023	**Additional board meeting scheduled for approval of Final Comment Letter**
10 March 2023	IASB comment period ends **Secretariat:** submits Final Comment Letter **Secretariat:** Final Comment Letter published on website
23 March 2023	**Board:** Discusses and approves Feedback Statement and Due Process Compliance Statement for influencing phase of project
April-May 2023	IASB redeliberates
May 2023	IASB publishes final Amendments

Endorsement and Adoption Phase

Date	Milestone
	Endorsement and adoption phase
22 June 2023	**Board:** Discusses and approves DECA and PIP (revised if necessary)
26 June 2023	**Secretariat:** Publishes DECA with 14-day comment period to 10 July 2023
6 July 2023	**Secretariat:** Prepares the adoption package and a draft Due Process Compliance Statement for the project.
13 July 2023	**Board:** Considers an adoption package for approval and considers the draft Due Process Compliance Statement for the project. Board members provide a tentative vote.
w/c 17 July 2023	Voting form is sent to board members.
w/c 24 July 2023	**Board:** Deadline for submitting vote Publication of adoption decision
21 September 2023	**Board:** Final Due Process Compliance Statement for noting.

Timelines

Influencing Phase



Endorsement and Adoption Phase