

## IASB

### Meeting Summary

April (supplementary) 2023

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## Overview

The IASB held a supplementary meeting in London on 11 April 2023. The following topic was discussed:

**International Tax Reform—Pillar Two Model Rules:** In January 2023, the IASB published the Exposure Draft (ED) *International Tax Reform—Pillar Two Model Rules*, which proposed amendments to IAS 12. The comment period ended on 10 March 2023. The purpose of this meeting was for the IASB to consider the feedback on the ED and decide on how to proceed with the proposals. The IASB decided to finalise an amended version of the proposals. The amendments will be effective immediately and will need to be applied retrospectively. However, the amendments do not apply to any interim financial periods ending in 2023. The staff expect that the amendments will be published in May 2023.

## International Tax Reform—Pillar Two Model Rules

The IASB considered feedback on the proposed amendments to IAS 12 in relation to the International Tax Reform—Pillar Two Model Rules, including considering a recommendation to finalise the proposals.

### Cover Paper (Agenda Paper 12)

In January 2023, the IASB published the ED International Tax Reform—Pillar Two Model Rules, which proposed amendments to IAS 12 *Income Taxes*. The comment period ended on 10 March 2023.

The purpose of this meeting was for the IASB to:

- Consider the feedback on the ED
- Decide on how to proceed with the proposals.

The staff recommended that the IASB finalise an amended version of the proposals.

### Temporary exception to deferred tax accounting (Agenda Paper 12A)

This paper discussed feedback on the proposal to introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

In 2021 the Organisation for Economic Co-operation and Development (OECD) published what are known as the Pillar Two model rules. They provide for a co-ordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum rate.

The IASB proposed amending IAS 12 by adding a temporary exception such that entities would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

### Feedback and staff analysis

#### *The exception*

Almost all respondents agreed with the proposed temporary exception. Almost all respondents also agreed that the temporary exception should be mandatory. Some respondents suggested that the exception be optional to allow entities to provide deferred tax information if they are able to do so.

Most respondents agreed with not specifying how long the temporary exception will be in place. However, a few suggested specifying how long the temporary exception would be in place or, at least, specifying the earliest date on which the IASB would reconsider it. A few respondents thought the exception should be permanent because recognising deferred taxes arising from Pillar Two legislation would be costly, complex and potentially misleading.

#### *Scope*

The proposed paragraph 4A stated that the exception "applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules..." Some respondents read it as requiring an entity to first consider whether top-up taxes are income taxes (and thus whether those taxes are in the scope of IAS 12) while others read it as asserting that all top-up taxes are income taxes (and thus that those taxes are always in the scope of IAS 12). The staff observed that the IASB's intention was not to state that all top-up taxes are—or should be deemed to be—income taxes. Instead, the intention was to state that IAS 12 applies to income taxes arising from Pillar Two legislation (that is, for those top-up taxes arising from Pillar Two legislation that are income taxes). Therefore, similar to any other tax, an entity would first consider whether top-up taxes are income taxes based on the particular circumstances before applying the requirements in

IAS 12:7, The staff will consider clarifying the wording of paragraph 4A and any related discussion in the Basis for Conclusions (BC) when drafting final amendments.

The staff did not recommend requiring entities to deem all top-up taxes arising from Pillar Two legislation to be income taxes in the scope of IAS 12. The staff stated that doing so without undertaking further technical analysis could result in unintended consequences. The staff recommended no change to the scope of the temporary exception.

#### *Disclosure*

The proposal included a requirement for an entity to state that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Some respondents observed that the proposed disclosure requirement would be unnecessary because the temporary exception is mandatory. However, others agreed with the proposed disclosure requirement, saying disclosing this information would provide clarity and transparency that an entity has applied the exception because not all entities are in the scope of the Pillar Two model rules or are exposed to paying top-up taxes.

The staff noted that if the IASB agrees with the recommendations in Agenda Paper 12B, an entity would already be required to provide information about its exposure to Pillar Two income taxes when applying the proposed disclosure requirements. This would make the disclosure redundant.

#### **Staff recommendations**

The staff recommended that the IASB:

- Finalise its proposals to introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes (the temporary exception) (Recommendation 1)
- Require the temporary exception to be mandatory (Recommendation 2)
- Not specify how long the temporary exception will be in place (Recommendation 3)
- Not to change the scope of the temporary exception (Recommendation 4)
- Not finalise the proposal to require an entity to disclose the fact that it has applied the temporary exception (Recommendation 5).

#### **IASB discussion**

IASB members generally agreed with the staff recommendations. Particularly, IASB members expressed support for the retention of the narrow scope of the amendment. A broadening of the scope would need more time as the IASB would have to ensure that there are no unintended consequences.

One IASB member suggested, however, that the proposal to require an entity to disclose the fact that it has applied the temporary exception should be retained, even if it is redundant. In his view, it would not result in a burdensome requirement and provide clarification.

#### **IASB decision**

13 of the 13 IASB members present (one IASB member was absent) voted in favour of Recommendation 1-3. The Chair added that the IASB could specify the process for revisiting the temporary exemption in the BC.

All of the IASB members present voted in favour of Recommendation 4.

On Recommendation 5, 7 of the 13 IASB members present voted in favour of the recommendation. However, when the Chair asked who, regardless of their vote on Recommendation 5, would support retaining the disclosure requirement, 8 of the 13 IASB members present voted in favour of retaining the disclosure requirement. The proposal will therefore be retained.

## Disclosures (Agenda Paper 12B)

This paper discusses feedback on the proposals to require an entity to disclose specific information to users of financial statements (investors) before and after the Pillar Two model rules are in effect.

The proposal included the following disclosure requirement:

“In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity shall disclose, for the current period only:

- Information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates
- The jurisdictions in which the entity’s average effective tax rate for the current period is below 15%, the tax expense (income) and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate. Entities would also need to disclose if an identified jurisdiction is one where the entity might not be exposed to paying Pillar Two income taxes as well as jurisdictions not identified but in relation to which the entity might be exposed to paying Pillar Two income taxes

Many respondents disagreed with the proposals, saying that the disclosures proposed would not result in useful information and would require entities to incur significant costs to prepare that information. Others agreed with the proposals.

Some respondents stated that accounting profit and income tax expense are the starting points for calculating *covered taxes* and *GloBE income or loss*, the Pillar Two model rules require an entity to make several adjustments that could result in material differences between the IAS 12 and Pillar Two expected tax rates (ETRs). Others observed that the information would not be useful in assessing an entity’s Pillar Two exposure because:

- It would not reflect mitigating actions an entity may take to reduce its exposure (for example, changing its tax strategy or shifting operations out of low-tax jurisdictions)
- An entity’s ETR in future periods may differ from the current period ETR (for example, there could be exceptional items in the current period);
- Domestic legislation may change as a result of the global implementation of Pillar Two legislation (for example, some jurisdictions may increase their statutory tax rates)
- There could be differences in legislation enacted in each jurisdiction and further OECD guidance in the future

Some respondents suggested that, instead of requiring an entity to disclose specific information based on IAS 12, the IASB could require entities to disclose information that meets a disclosure objective. The IASB could base this objective on the explanations in the ED—for example, it could require entities to disclose information that helps investors assess an entity’s Pillar Two exposure.

The staff agreed with suggestions to specify a disclosure objective. They considered that doing so would allow an entity flexibility in disclosing information that best meets the disclosure objective—including making materiality judgements—but without resulting in undue cost or effort. The staff proposed that the disclosure objective should be:

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

The staff considered this revised approach appropriately balances:

- Investors need for information about an entity’s Pillar Two exposure—this need would be met by a requirement to disclose qualitative and quantitative information about an entity’s Pillar Two exposure
- Preparers’ concerns about disclosing IAS 12-based information—the revised approach would allow an entity to use known or reasonably estimable Pillar Two-based information in preparing its disclosures, and thus provide more useful information at a lower cost

### **Staff recommendations**

The staff recommended that the IASB require that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect:

- An entity disclose information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation
- In meeting that disclosure objective, an entity disclose known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to be compliant in all respects with the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity should instead disclose a statement to that effect

The staff also recommended that the IASB finalise the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Additionally, the IASB was asked if it wishes to require an entity to disclose further information in periods before legislation is in effect.

### **IASB discussion**

Most IASB members supported a principles-based approach starting with a disclosure objective. IASB members said it was sensible to focus on the Pillar Two information rather than any kind of top-up tax. However, there was some discussion as to how the disclosure objective could be achieved. As currently proposed, some IASB members expressed concern that the resulting disclosures would benefit preparers but not investors.

The main concern was that if information was not reliably estimable, entities would be able to avoid disclosure of quantified information of the effect. Some IASB members would prefer to see some quantification, even if it is a proxy. For that reason, they supported to include a ‘backstop’ that, if information is not reliably estimable, would require IAS 12 information to be given. This would also prevent entities from withholding available information just because there is a degree of uncertainty attached to that information.

However, other IASB members had strong reservations about such a backstop. One of the reasons cited was that when providing proxies, some entities could be subject to litigation or reputational risk for misleading users. Others cited cost-benefit reasons and that proxies would not have any predictive information. The Chair said that by the time the information needs to be provided, the legislative processes in most jurisdictions would be much progressed and information will then be reliably quantifiable.

### **IASB decision**

11 of the 13 IASB members present (one absent) voted in favour of a principles-based approach to disclosure, starting with a disclosure objective.

10 of the 13 IASB members present agreed that to meet the disclosure objective, entities would have to provide known or reasonable estimable information. This information does not be completely accurate and could be qualitative rather than quantitative.

All IASB members present voted in favour of requiring an entity to disclose information about progress made in assessing the entity's exposure to Pillar Two taxes.

Only 4 of the 13 IASB members present supported the requirement to disclose IAS 12-based information when there is no known or reasonably estimable information about an entity's Pillar Two exposure.

12 of the 13 IASB members present agreed with finalising the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

### **Transition and effective date (Agenda Paper 12C)**

This paper discussed feedback on the proposals for transition and effective date of the proposed amendments.

The IASB had proposed that an entity apply the temporary exception—and the requirement to disclose that the entity has applied the exception—immediately upon issuance of the amendments and retrospectively in accordance with IAS 8.

#### **Feedback and staff analysis**

Almost all respondents agreed with the proposal for the reasons set out in the ED. However, some suggested an effective date of 1 January 2024:

- To accommodate endorsement and translation processes
- Because legislation is generally expected to be in effect only after 1 January 2024

These respondents suggested requiring prospective application. A few respondents suggested including in the Standard the statement that the temporary exception would be applicable to 'any financial statements not yet authorised for issue' at the date of issuance of the amendments.

The staff did not recommend a change to the effective date. Moving to an effective date of 1 January 2024 would allow entities to develop their own interpretation of IAS 12 and recognise deferred tax assets and liabilities related to Pillar Two income taxes for 2023 reporting periods, reducing comparability.

Agenda Paper 12B discussed feedback on the proposed disclosures and includes recommendations for a revised approach. The staff considered that the proposal to make the amendments effective immediately and with retrospective application remains appropriate.

The recommendations would allow an entity to use available Pillar Two-based information in meeting the disclosure requirements, and therefore are not expected to increase the time and effort needed to prepare the required information.

#### **Interim financial reports**

In proposing the effective date for the disclosure requirements, the IASB concluded that entities need time to prepare the required information. The staff view is that requiring entities to comply with the disclosure requirements for interim periods within 2023 would not give many entities sufficient time to prepare the required information—the outcome the IASB wanted to prevent.

Consequently, the staff recommended specifying that an entity is not required to apply the proposed disclosure requirements in interim financial reports for any interim periods within 2023. The IASB expects to publish the amendments in May 2023. The staff considered referring to any interim periods within the first

annual reporting period in which the entity applies the disclosure requirements but considered that referring only to interim periods within 2023 is sufficient.

### **Staff recommendation**

The staff recommended that the IASB:

- Finalise the proposal to require an entity to apply the disclosure requirements for annual reporting periods beginning on or after 1 January 2023
- Specify that an entity is not required to apply the disclosure requirements in interim financial reports for any interim period within 2023

### **IASB discussion**

One IASB member suggested that instead of requiring disclosures for annual reporting periods beginning on or after 1 January 2023, to phrase it as 'annual reporting periods ending on or after 31 December 2023' as this would give more time for endorsement processes to happen. However, the Chair pointed out that in his view there is no difference in annual periods beginning on or after 1 January 2023, and annual periods ending on or after 31 December 2023.

One IASB member asked if, for those countries that have endorsement processes, the IASB could look into a way for auditors not having to qualify the opinion if an entity applies the exception before it is endorsed.

With regard to interim periods, an IASB member asked whether 'interim period within 2023' should be rephrased to 'interim period ending in 2023'. The staff confirmed that this would be more accurate. The Chair highlighted that this means that entities that have a fiscal year different from the calendar year would have the first disclosures on Pillar Two taxes in an interim period. The staff confirmed this. The Chair then said that it should be made clear in the BC that the reasoning for the interim period exception is to give preparers more time to collect the data, rather than a desire to have the first disclosure on Pillar Two taxes in an annual period.

### **IASB decision**

12 of 13 IASB members present (one absent) voted in favour of finalising the proposal to require an entity to apply the temporary exception immediately upon issue of the amendments and retrospectively in accordance with IAS 8.

All IASB members present supported finalising the proposal to require an entity to apply the disclosure requirements for annual reporting periods beginning on or after 1 January 2023 and specifying that an entity is not required to apply the disclosure requirements in interim financial reports for any interim period ending in 2023.

### **Due process (Agenda Paper 12D)**

This paper set out due process steps and requests permission to ballot amendments to IAS 12.

The staff considered that re-exposure of the proposals is not necessary because:

- The IASB had undertaken all of the steps required by its Due Process requirements
- It is unlikely that re-exposure would reveal new information or feedback not already considered by the IASB
- The changes recommended respond to feedback without fundamentally changing the proposed amendments and is based on suggestions from respondents and explanations included in the BC
- The proposed amendments are urgent
- The changes relate only to the disclosure proposals

**Staff recommendation**

The staff recommended that the IASB finalise the amendments without re-exposure.

IASB members were asked if any member plans to dissent.

**IASB decision**

All IASB members present (one absent) agreed with the staff recommendation. One IASB member indicated that he considers dissenting from the amendment.