
IASB[®] meeting

Date	August 2023
Project	Pillar Two Model Rules—Amendments to the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Effective date, transition and due process
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Introduction and purpose

1. This paper:
 - (a) summarises feedback on Question 3 of the Invitation to Comment in the [Exposure Draft *International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard*](#) (Exposure Draft), which asks for comments on the proposals for transition and the effective date of the proposed amendments;
 - (b) provides our analysis of that feedback and recommendations;
 - (c) sets out the steps in the IFRS Foundation [Due Process Handbook](#) (*Handbook*) that the IASB has taken in developing the amendments to the *IFRS for SMEs* Standard (the Standard);
 - (d) asks the IASB to confirm it is satisfied that it has complied with the due process requirements; and
 - (e) asks whether any IASB member intends to dissent from the amendments to the *IFRS for SMEs* Standard.

Structure of this paper

2. This paper includes:
 - (a) summary of staff recommendations (paragraphs 4–5);
 - (b) staff analysis of feedback on the proposed transition and effective date for:
 - (i) the temporary exception (paragraphs 6–12);
 - (ii) the consequential amendment to paragraph 35.10(h) of the *IFRS for SMEs* Standard (paragraphs 13–18); and
 - (iii) the proposed requirement to separately disclose current tax expense (income) related to Pillar Two income taxes (paragraphs 19–29);
 - (c) due process steps and permission for balloting (paragraphs 30–36); and
 - (d) staff recommendations and questions to the IASB (paragraphs 37–38).
3. There are two appendices to this agenda paper:
 - (a) Appendix A—Extracts from the *Due Process Handbook*; and
 - (b) Appendix B—Actions taken to meet the due process requirements.

Summary of staff recommendations

4. We recommend the IASB finalise its proposals in the Exposure Draft to require an SME to apply:
 - (a) the exception (proposed new paragraph 29.3A)—and disclose it has applied the exception (proposed new paragraph 29.42)—immediately upon the issue of these amendments and retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard;
 - (b) the amended paragraph 35.10(h) immediately upon the issue of these amendments; and

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- (c) the disclosure requirement in proposed new paragraph 29.43 for annual reporting periods beginning on or after 1 January 2023.
5. We recommend finalising the amendments without re-exposure.

Temporary exception

Proposals in the Exposure Draft

6. The IASB proposes that an SME apply the exception (proposed new paragraph 29.3A)—and disclose it has applied the exception (proposed new paragraph 29.42)—immediately upon the issue of these amendments and retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard.
7. Paragraph BC23 of the Exposure Draft explains the reasons for the proposals:
- The IASB concluded that, for the temporary exception to be effective, it would need to be available to SMEs immediately upon the issue of the amendments and applicable to any financial statements not yet authorised for issue at that date. The IASB decided to propose retrospective application of the temporary exception in paragraph 29.3A because such application would:
- (a) allow an SME to apply the exception from the date the Pillar Two legislation is enacted or substantively enacted, even if that date is before the issue date of the amendments; and
 - (b) not result in additional costs.

Summary of feedback

8. All respondents agreed, or did not disagree, with the proposals for the reasons set out in the Exposure Draft.
9. A national standard-setter asked when would be the effective date of the clarifications to the meaning of ‘other events’ proposed in paragraph 29.38 of the *IFRS for SMEs* Standard.

Staff analysis

10. We continue to agree with the proposals for the reasons set out in paragraph BC23 of the Basis for Conclusions on the Exposure Draft.
11. The proposed clarifications in paragraph 29.38 of the *IFRS for SMEs* Standard (that ‘other events’ include enactment or substantive enactment of tax rates and tax laws, such as Pillar Two legislation) do not have effective date because they do not add or change any requirements. For more information, see staff analysis in Agenda Paper 12B for this meeting.
12. Based on our analysis, we recommend finalising the proposals in the Exposure Draft without any changes.

Consequential amendment to Section 35**Proposals in the Exposure Draft**

13. The IASB proposes:
 - (a) to clarify in paragraph 35.10(h) of the *IFRS for SMEs* Standard that a first-time adopter applies the exception in paragraph 29.3A retrospectively even if it applies Section 29 prospectively from the date of transition to the *IFRS for SMEs* Standard; and

- (b) to require an SME to apply the amended paragraph 35.10(h) immediately upon the issue of these amendments.

14. Paragraph BC24 of the Exposure Draft explains the reasons for this proposal:

The IASB also decided that the consequential amendments to paragraph 35.10(h) would need to be applied immediately upon the issue of the proposed amendments to Section 29 of the *IFRS for SMEs* Standard to ensure that the Standard is no more onerous to apply by a first-time adopter than by SMEs already applying the Standard.

Summary of feedback

15. Some respondents commented on this proposal. Of those who commented:
- (a) almost all agreed with the IASB's proposal. They agreed with the IASB's rationale and said the amendment would enhance comparability between the financial statements of entities that already apply the *IFRS for SMEs* Standard and of those that apply the Standard for the first-time.
 - (b) an accounting firm said it is unclear how the amendment would be applied. In this respondent's view, if a first-time adopter had recognised deferred tax amounts related to Pillar Two income taxes under its previous GAAP, the deferred tax balances would be derecognised at the date of transition to the *IFRS for SMEs* Standard and the impact recognised in equity at that date. The respondent said this would be consistent with other adjustments on the date of transition to the *IFRS for SMEs* Standard—for example, if a first-time adopter applies Section 29 prospectively, it may be required to derecognise deferred tax assets recognised applying its previous GAAP if deferred tax assets do not meet recognition criteria in Section 29. The respondent suggested the IASB reconsider whether it is appropriate to indicate that paragraph 29.3A is applied retrospectively by a first-time adopter, and if so, clarifies what this means.

Staff analysis

16. We agree with the respondent's view that in the example described in paragraph 15(b) it would not be necessary to include consequential amendments in Section 35.
17. However, we think there might be other scenarios to which the proposed amendments would apply. For example, under its previous GAAP, an SME recognises deferred tax assets related to Pillar Two income taxes and such deferred taxes meet recognition criteria in Section 29. On transition to the *IFRS for SMEs* Standard, the entity uses the exemption in paragraph 35.10(h) and applies Section 29 prospectively. In the absence of the consequential amendment to paragraph 35.10(h), questions might arise about whether the exemption overrides the mandatory exception in paragraph 29.3A and whether, or not, the entity derecognises Pillar-Two-related deferred tax balances recognised under its previous GAAP on the date of transition to the *IFRS for SMEs* Standard. In other words, in the absence of the consequential amendment, a first-time adopter of the Standard might interpret the requirements in such way that it would carry over deferred tax balances related to Pillar Two income taxes recognised under its previous GAAP and apply Section 29 (including the exception in paragraph 29.3A) prospectively only to transactions recognised after the date of transition to the *IFRS for SMEs* Standard, which would be inconsistent with the IASB's objective.
18. Therefore, we think the IASB should finalise its proposals in paragraph 35.10(h) of the *IFRS for SMEs* Standard:
 - (a) to provide clarification and avoid unintended consequences;
 - (b) to enhance comparability between first-time adopters and entities already applying the Standard; and
 - (c) to ensure the requirements are no more onerous to apply by a first-time adopter than by an entity already applying the Standard.

Current tax expense (income) related to Pillar Two income taxes

Proposals in the Exposure Draft

19. The IASB proposes that an SME apply the requirement to disclose separately its current tax expense (income) related to Pillar Two income taxes (proposed new paragraph 29.43) for annual reporting periods beginning on or after 1 January 2023.
20. Paragraph BC25 of the Exposure Draft explains the reasons for this proposal:

The IASB proposes to require an SME to apply the disclosure requirements in proposed new paragraph 29.43 for annual reporting periods beginning on or after 1 January 2023. The IASB concluded that this effective date would provide an SME with enough time to prepare the required information. The IASB also expects that the disclosure requirements in paragraph 29.43 will only be applicable from 1 January 2024 when Pillar Two legislation is expected to be in effect in many jurisdictions.

Summary of feedback

21. Almost all respondents agreed, or did not disagree, with the IASB's proposal, mostly for the reasons explained in the Exposure Draft.
22. An accountancy body suggested deferring the disclosure requirement in the proposed new paragraph 29.43 to annual reporting periods beginning on or after 1 January 2024 and permitting its earlier application to provide SMEs with more time to prepare the required information.
23. Another accountancy body suggested requiring an SME to disclose the information in paragraph 29.43 for annual periods beginning on 1 January 2023 or on 'the date on which the application is mandatory in the respective jurisdiction according to its legislation or regulation'.

Staff analysis

24. We continue to agree with the proposal for the reasons set out in the Exposure Draft.
25. We disagree with the suggestion to change the effective date to 1 January 2024. As explained in paragraph BC25 of the Basis for Conclusions on the Exposure Draft, feedback confirmed many jurisdictions are expected to enact Pillar Two legislation during 2023 and make the legislation effective from 1 January 2024. Because of that, the IASB expects that the disclosure requirements in paragraph 29.43 will only be applicable from 1 January 2024, which will provide an SME with enough time to prepare the required information. In addition, the proposed effective date would mean that the disclosure requirement would also apply to the 2023/2024 reporting period of an SME whose annual reporting period is other than the calendar year, and for example, begins on 1 July 2023.
26. We also disagree with the suggestion to change the effective date to annual reporting periods beginning either *on* 1 January 2023 or *on* the date when Pillar Two legislation becomes effective in a jurisdiction because, following that approach, the proposed disclosure requirements would not apply to entities with annual reporting periods other than the calendar year.
27. In addition, we think there is no compelling reason for different effective dates in the *IFRS for SMEs* Standard and full IFRS Accounting Standards, in particular because:
- (a) affected SMEs operate in the same jurisdictions implementing Pillar Two legislation as the entities applying full IFRS Accounting Standards.
 - (b) feedback provided evidence that the Pillar Two model rules could have a material effect on the financial statements of a subset of SMEs, particularly some subsidiaries of large multinational groups. These subsidiaries would be expected to have the resources within the group to apply the amendments for annual reporting periods beginning on or after 1 January 2023.
28. We also note that mandatory effective date of a new IFRS Accounting Standard, or an amendment to an Accounting Standard, is set to provide jurisdictions with enough

time to implement the new requirements into their legal systems. Paragraph 6.35 of the *Handbook* states:

[...] The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the Standards have sufficient time to prepare for the new requirements.

29. Based on our analysis, we recommend finalising the proposals in the Exposure Draft without any changes.

Due process steps and permission for balloting

Re-exposure

30. If the IASB agrees with our recommendations in Agenda Papers 12A, 12B and this paper, the proposals in the Exposure Draft will be finalised with limited drafting changes.
31. We considered the requirements in paragraphs 6.25–6.29 of the *Handbook* (reproduced in Appendix A to this paper) to assess whether the IASB should re-expose the amendments. In our view, the IASB should not re-expose the amendments because:
- (a) the IASB has undertaken the steps described in paragraph 6.25;
 - (b) the revised proposals respond to the feedback received, do not include any fundamental changes on which respondents have not had the opportunity to comment and it is unlikely that re-exposure would reveal any new information or feedback not already considered by the IASB (see paragraph 6.26);
 - (c) the proposed amendments are urgent (see paragraph 6.27); and

- (d) the limited drafting changes relate only to the disclosure proposals—we are not recommending any change to the requirements on recognition or measurement (see paragraph 6.28).

32. Therefore, we recommend finalising the amendments without re-exposure.

Intention to dissent

33. In accordance with paragraph 6.23 of the *Handbook*, we are asking whether any IASB member intends to dissent from the amendments.

Confirmation of due process steps

34. In our view, the IASB has undertaken all the due process activities identified as being required in the *Handbook* and, thus, is able to finalise the amendments. Appendix B summarises the due process steps taken in developing the amendments—the applicable due process steps to date for issuing the amendments have been completed.

35. We request permission to start the balloting process if the IASB is satisfied that:

- (a) it has been provided with sufficient analysis; and
- (b) it has undertaken appropriate consultation and due process to support issuing the amendments.

Proposed timetable for balloting and publication

36. The balloting process for the amendments to the *IFRS for SMEs* Standard will commence in the near term, with the amendments planned for issue in September 2023.

Staff recommendations

37. We recommend the IASB finalise its proposals in the Exposure Draft to require an SME to apply:
- (a) the exception (proposed new paragraph 29.3A)—and disclose it has applied the exception (proposed new paragraph 29.42)—immediately upon the issue of these amendments and retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard;
 - (b) the amended paragraph 35.10(h) immediately upon the issue of these amendments; and
 - (c) the disclosure requirement in proposed new paragraph 29.43 for annual reporting periods beginning on or after 1 January 2023.
38. We recommend finalising the amendments without re-exposure.

Questions for the IASB

Proposals to finalise

1. Does the IASB agree with the staff recommendation in paragraph 37?

Due process

2. **Re-exposure**—does the IASB agree with the staff recommendation not to re-expose the amendments to the *IFRS for SMEs* Standard?
3. **Dissent**—does any IASB member intend to dissent from the amendments to the *IFRS for SMEs* Standard?
4. **Permission to ballot**—is the IASB satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to the *IFRS for SMEs* Standard?

Appendix A—Extracts from the *Due Process Handbook*

A1. We reproduced below the paragraphs from the *Handbook* that include the requirements the IASB applies in considering re-exposure:

6.25 In considering whether there is a need for re-exposure, the [IASB]:

(a) identifies substantial issues that emerged during the comment period on the exposure draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions.

6.26 It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the [IASB] to re-expose the proposals. The [IASB] needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The [IASB] also needs to consider whether it will learn anything new by re-exposing the proposals. If the [IASB] is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-

exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

- 6.27 The more extensive and fundamental the changes from the exposure draft and current practice the more likely the proposals should be re-exposed. However, the [IASB] needs to weigh the cost of delaying improvements to financial reporting against the relative urgency for the need to change and what additional steps it has taken to consult since the exposure draft was published. The use of consultative groups or targeted consultation can give the [IASB] information to support a decision to finalise a proposal without the need for re-exposure.
- 6.28 The [IASB] should give more weight to changes in recognition and measurement than disclosure when considering whether re-exposure is necessary.
- 6.29 The [IASB]'s decision on whether to publish its revised proposals for another round of comment is made in a [IASB] meeting. If the [IASB] decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. However, because it is not the first exposure of the proposed IFRS [Accounting] Standard, it may be appropriate to have a shortened comment period, particularly if the [IASB] is seeking comments on only specific aspects of the revised exposure draft, while recognising that respondents may not limit their comments to these aspects. The public comment period for such documents will normally be at least 90 days.

Appendix B—Actions taken to meet the due process requirements

B1. The following table summarises the actions taken to meet the due process requirements:

Step	Required / Optional	Actions
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	All comment letters received by the IASB (27) have been posted on the project website here .
The IASB and the IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The IASB is discussing our analysis and recommendations on the matters identified in the feedback to the Exposure Draft at this meeting (see <i>Agenda Papers 12–12C for this meeting</i>). All staff papers above are publicly available. The project webpage has up-to-date information about all technical papers related to the project.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	The IASB considered the likely effects of the amendments at each stage of their development. The basis for conclusion on the amendments will include the IASB’s views on these effects.
Round-table and outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	The proposed amendments were discussed with members of the SME Implementation Group at its meeting in July 2023.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Agenda Paper.

Need for re-exposure is considered.	Required	Paragraphs 30–32 of this paper discuss re-exposure. We recommend not re-exposing the amendments.
The IASB sets an effective date for the Standard, considering the need for effective implementation.	Required	This Agenda Paper discusses the effective date.
Drafting		
Drafting quality assurance steps are adequate.	Required	To be completed in due course. The Translations, Taxonomy and Editorial teams will review the pre-ballot draft.
Publication		
News release to announce the final Standard.	Required	To be completed in due course. A news release will be published with the amendments.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope. The Basis for Conclusions on the amendments will explain how the IASB has responded to feedback.
Standard is published.	Required	The amendments will be made available on our website when published.