Staff paper

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Date	**May 2023**
Project	**International Tax Reform—Pillar Two Model Rules**
Topic	**Amendments to the *IFRS for SMEs*® Accounting Standard**
Contacts	Rafal Markowski (rmarkowski@ifrs.org) Michelle Fisher (mfisher@ifrs.org)

Introduction

1. At its November 2022 meeting, the International Accounting Standards Board (IASB) discussed the potential effects of the Organisation for Economic Co-operation and Development's (OECD's) Pillar Two model rules on the accounting for income taxes by an entity applying IAS 12 *Income Taxes.*[1] The IASB published the Exposure Draft *International Tax Reform—Pillar Two Model Rules* (Exposure Draft) in January 2023. The Exposure Draft was open for comment until 10 March 2023. At its supplementary meeting in April 2023, the IASB discussed the feedback on the Exposure Draft and decided to finalise the amendments to IAS 12.[2] The amendments will introduce:

   (a) a temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the global tax rules; and

   (b) targeted disclosure requirements for affected companies to help users of the financial statements better understand a company's exposure to Pillar Two income taxes arising from that legislation, particularly before the effective date of that legislation.

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[1] The Pillar Two model rules are available at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.htm.

[2] The final amendments to IAS 12 *Income Taxes* are expected to be issued by the end of May 2023.

2. In considering whether and how to amend the *IFRS for SMEs* Accounting Standard for a new or amended IFRS Accounting Standard, the IASB applies its alignment approach. The alignment approach applies three principles:

   (a) relevance to SMEs;

   (b) simplicity; and

   (c) faithful representation.

3. Applying the alignment approach, at its meeting in April 2023, the IASB decided the Pillar Two model rules (and the proposed amendments to IAS 12) are relevant to entities applying the *IFRS for SMEs* Accounting Standard. At that meeting the IASB added to its work plan a narrow-scope standard-setting project to amend Section 29 *Income Tax* of the Accounting Standard outside the periodic review of the Accounting Standard (that is, outside the Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard).

4. This paper discusses the IASB's alignment principles of simplicity and faithful representation, and also an overall assessment of costs and benefits.

5. In this paper, the term 'SMEs' refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (entities that do not have public accountability and publish general purpose financial statements for external users).

6. Throughout this paper:

   (a) 'Pillar Two legislation' refers to tax law enacted or substantively enacted to implement the Pillar Two model rules, including tax law implementing qualified domestic minimum top-up taxes described in those rules; and

   (b) the income taxes arising from Pillar Two legislation are referred to as 'Pillar Two income taxes'.

Purpose of the paper

7. This paper asks:

   (a) the IASB to decide how to propose amendments to the *IFRS for SMEs* Accounting Standard to align Section 29 of the Accounting Standard with the amendments to IAS 12 *International Tax Reform—Pillar Two Model Rules*;

   (b) the IASB whether it agrees with the staff recommendation to ask the DPOC to approve a 45-day comment period for the exposure draft of proposed amendments to the *IFRS for SMEs* Accounting Standard;

   (c) the IASB whether it is satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the exposure draft; and

   (d) if any IASB member intends to dissent from the proposals in the exposure draft.

Structure of this paper

8. This paper includes:

   (a) summary of staff recommendations (paragraphs 9–11);

   (b) proposed amendments to IAS 12 (paragraphs 12–14);

   (c) final amendments to IAS 12 (paragraphs 15–19);

   (d) alignment approach (paragraphs 20–25);

   (e) staff analysis (paragraphs 26–47);

   (f) effects analysis (paragraph 48);

   (g) transition and effective date (paragraphs 49–52);

   (h) due process steps and permission for balloting (paragraphs 53–56);

   (i) staff recommendations and questions to the IASB (paragraphs 57–59);

(j) Appendix A—due process steps;

(k) Appendix B—proposed amendments to IAS 12; and

(l) Appendix C—excerpts from the supplementary IASB *Update* April 2023.

Summary of staff recommendations

9. The staff recommend the IASB propose amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard:

   (a) to introduce a temporary exception from accounting for deferred taxes related to Pillar Two income taxes;

   (b) to make that temporary exception mandatory;

   (c) not to specify how long the temporary exception will be in place;

   (d) to require an SME to disclose that it has applied the temporary exception; and

   (e) to require an SME to apply these amendments immediately upon their issuance and retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the Accounting Standard.

10. For periods when Pillar Two legislation is in effect, the staff recommend the IASB also propose amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard to require an SME:

    (a) to disclose separately its current tax expense (income) related to Pillar Two income tax; and

    (b) to apply this disclosure requirement for annual reporting periods beginning on or after 1 January 2023.[3]

11. For the reasons explained in paragraphs 41–47 of this paper, we recommend:

[3] The *IFRS for SMEs* Accounting Standard does not address presentation of interim financial reports.

(a) clarifying that the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standards applies to the entity's exposure to Pillar Two income taxes; and

(b) not introducing new disclosure requirements in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect.

Proposed amendments to IAS 12

Overview

12. In the Exposure Draft published in January 2023, the IASB proposed to amend IAS 12 to introduce:

(a) a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and

(b) targeted disclosure requirements including specific information about an entity's potential exposures (before legislation is effective) and current tax expense related to Pillar Two income taxes (after legislation is effective).[4]

Summary of feedback[5]

13. The IASB received 94 comment letters by the comment letter deadline (10 March 2023) from a broad range of respondents across all regions. The following is a high-level summary of feedback:

(a) *temporary exception to the accounting for deferred taxes*—almost all respondents agreed with the proposed temporary exception. Most of these respondents agreed for the reasons set out in the Exposure Draft.

[4] For more details, see Appendix B to this paper.

[5] Agenda Papers 12A–12C for the IASB supplementary meeting in April 2023 provide further information about the feedback.

(b) *targeted disclosure requirements*—most respondents agreed with the disclosure proposals for periods after legislation is effective. However, respondents expressed mixed views on the disclosure proposals for periods before legislation is effective.

14. In addition to feedback in comment letters, the IASB obtained feedback from members of the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC) at their meetings in March 2023.

Final amendments to IAS 12[6]

A temporary exception to the accounting for deferred taxes

15. After considering the feedback, the IASB decided to finalise its proposals:

(a) to introduce the temporary exception;

(b) to make the temporary exception mandatory;

(c) not to specify how long the temporary exception will be in place; and

(d) to require an entity to disclose that it has applied the temporary exception.

16. The IASB also decided to make no change to the proposed scope of the temporary exception.

Targeted disclosure requirements

17. After considering the feedback, the IASB decided to require that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity:

(a) discloses information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

[6] The final amendments to IAS 12 *Income Taxes* are expected to be issued by the end of May 2023.

(b) meets the disclosure objective in (a) by disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to reflect all 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 would instead be required to disclose a statement to that effect.

18. The IASB also decided to require that, to the extent information is not known or reasonably estimable, an entity discloses information about the progress the entity has made in assessing its exposure to Pillar Two income taxes.

19. The IASB decided to finalise the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.[7]

Alignment approach

Background

20. The *IFRS for SMEs* Accounting Standard is based on IFRS Accounting Standards (full IFRS Accounting Standards) with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

21. In considering whether to amend the *IFRS for SMEs* Accounting Standard, the IASB first assesses whether a new or amended IFRS Accounting Standard is relevant to the financial statements of an SME. If an amendment fails that test, it is not considered further. Simplicity and faithful representation are the other two alignment principles the IASB applies when considering how to align the *IFRS for SMEs* Accounting Standard with each new or amended IFRS Accounting Standard.[8]

[7] For more details, see Appendix C to this paper.

[8] See paragraphs BC29-BC32 of the Basis for Conclusions on the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*.

22. Applying the principle of simplicity involves looking at the requirements in new or amended IFRS Accounting Standards that have satisfied the relevance condition for SMEs and then assessing what simplifications are appropriate. Paragraph BC16 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard sets out five ways the requirements in full IFRS Accounting Standards can be simplified. They are:

    (a) omitting some topics;

    (b) permitting only the simplest option if an IFRS Accounting Standard permits options;

    (c) simplifying recognition and measurement requirements;

    (d) reducing disclosures; and

    (e) simplifying language.

23. For any simplifications made, the IASB then considers the principle of faithful representation, which is intended to help the IASB assess whether financial statements prepared applying the *IFRS for SMEs* Accounting Standard would faithfully represent the substance of economic phenomena in words and numbers. So, the third principle helps ensure that the simplification needed is appropriate and does not significantly reduce the usefulness of the financial statements.

Outreach with SMEIG members and large accounting firms

24. To obtain evidence about the relevance of the Pillar Two model rules (and the proposed amendments to IAS 12) to SMEs, in March 2023 we reached out to SMEIG members and large accounting firms. We presented staff analysis of the feedback about the relevance to SMEs in Agenda Paper 14 for the April 2023 IASB meeting.

25. In the outreach request we also asked for suggestions on if, and how, the IASB should simplify the proposed amendments to IAS 12 for SMEs. A few SMEIG members (including two from national standard-setters) and three large accounting firms provided suggestions on how the IASB could provide simplifications for SMEs. Comments from respondents included:

(a) amendments to the *IFRS for SMEs* Accounting Standard should include the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes;

(b) for simplicity and considering costs and benefits, entities applying the *IFRS for SMEs* Accounting Standard should not be required to disclose information specified in paragraph 88C of the Exposure Draft (see Appendix B) or disclosure requirements should be simplified; and

(c) it may be useful for the IASB to work with other national standard-setters (for example, the UK FRC) on this issue as there are a number of countries around the world which apply a local variant of the *IFRS for SMEs* Accounting Standard and the standard-setters in those jurisdictions face the same underlying issue.[9]

Staff analysis

26. The IASB assessed the relevance of the proposed amendments (to IAS 12) to SMEs at its April 2023 meeting. In this paper, the staff analysis considers the principles of simplicity and faithful representation for:

(a) a temporary exception to the accounting for deferred taxes (paragraphs 27–37);

(b) disclosures in periods when legislation is in effect (paragraphs 38–40); and

(c) disclosures in periods before legislation is in effect (paragraphs 41–47).

[9] In April 2023 UK FRC published FRED 83 Draft amendments to *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 101 *Reduced Disclosure Framework*. The FRC's proposals are based on the IASB's Exposure Draft, but amended where the FRC considers that an alternative clearly better meets the overriding objective. When considering respondents' feedback to the FRED, the FRC will also consider how the IASB finalised its proposals and may make further changes to the proposals to reflect the final amendments issued by the IASB.

Temporary exception to the accounting for deferred taxes

27. The temporary exception to the accounting for deferred taxes related to Pillar Two income taxes would provide a simplification for SMEs (as it does for entities applying full IFRS Accounting Standards) because such a temporary exception would:

    (a) provide affected SMEs with relief from accounting for deferred tax assets and liabilities in relation to a complex new tax law to be enacted in multiple jurisdictions in a short period of time;

    (b) avoid SMEs developing diverse interpretations of Section 29 of the *IFRS for SMEs* Accounting Standard, which could result in the *IFRS for SMEs* Accounting Standard being applied inconsistently; and

    (c) allow time for jurisdictions to enact new tax law, for stakeholders to assess how the rules have been implemented by those jurisdictions, for SMEs to assess how they are affected and for the IASB to consider whether it needs to undertake further work.

28. Introducing a temporary exception would result in a potential loss of the information that would otherwise be provided by recognising deferred taxes. However, in our view the possible inconsistent application of the requirements in Section 29 of the *IFRS for SMEs* Accounting Standard would result in less useful information (particularly if an SME is required to estimate the tax rate to apply in measuring these deferred taxes) than consistent application of the temporary exception.

Mandatory application

29. After considering the feedback on the Exposure Draft, the IASB decided to finalise its proposal:

    (a) to make the temporary exception to accounting for deferred taxes applying IAS 12 mandatory; and

    (b) to require an entity to disclose that it has applied the temporary exception.

30. We think the IASB should not propose any simplifications and should propose the temporary exception to accounting for deferred taxes applying Section 29 of the *IFRS for SMEs* Accounting Standard is mandatory because doing so would:

   (a) result in greater comparability between SMEs' financial statements and thus result in more useful information for users of SMEs' financial statements;

   (b) support consistent application of the principles and requirements in the *IFRS for SMEs* Accounting Standard; and

   (c) maintain consistency with full IFRS Accounting Standards and ensure the *IFRS for SMEs* Accounting Standard is not more onerous to apply than full IFRS Accounting Standards in this area.

31. In addition, we think the IASB should propose SMEs disclose the fact that they have applied the temporary exception because this would be a factual statement that would result in no additional costs for SMEs but would provide clarity and transparency that an entity has applied the exception. Despite the temporary exception being mandatory, disclosing that an SME has applied the exception would provide entity-specific information because not all SMEs are affected by Pillar Two legislation. Therefore, by disclosing that it has not recognised deferred taxes related to Pillar Two income taxes, an SME would provide useful information to users of its financial statements.

Duration of the exception

32. After considering the feedback on the Exposure Draft, the IASB decided to finalise its proposal not to specify how long the temporary exception in IAS 12 will be in place.

33. We think the IASB should not specify how long the temporary exception for SMEs will be in place because further work is needed to determine how SMEs apply the principles and requirements in Section 29 of the *IFRS for SMEs* Accounting Standard to Pillar Two income taxes, which in turn depends on how jurisdictions implement the Pillar Two model rules. It is still uncertain when jurisdictions will implement the rules. It is also not possible to determine with precision how much time such work will require.

34. We note that the IASB will monitor developments related to the implementation of the Pillar Two model rules to determine when to undertake further work. This does not necessarily need to coincide with the next periodic review of the *IFRS for SMEs* Accounting Standard.

Consequential amendments

35. Paragraph 35.10(h) of the *IFRS for SMEs* Accounting Standard states:

> An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Standard:
>
> …
>
> (h) deferred income tax. A first-time adopter may apply Section 29 *Income Tax* prospectively from the date of transition to the *IFRS for SMEs*.

36. In our view, if the IASB agrees with our recommendation to propose introducing a mandatory temporary exception to accounting for deferred taxes applying Section 29 of the *IFRS for SMEs* Accounting Standard, in paragraph 35.10(h) the IASB should clarify that a first-time adopter shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

37. Otherwise, a first-time adopter of the Accounting Standard would be penalised compared to an SME already applying the Accounting Standard. This could disincentivise some jurisdictions from adopting (or entities from transitioning to) the *IFRS for SMEs* Accounting Standard.

Disclosures—periods when legislation is in effect

38. The IASB decided to finalise the proposal in the Exposure Draft to require an entity applying IAS 12 to disclose separately its current tax expense (income) related to Pillar Two income taxes.

39. Paragraph 29.39 of the *IFRS for SMEs* Accounting Standard requires an SME to disclose separately the major components of tax expense (income), which may include current tax expense (income). This requirement is similar to the requirements in paragraph 60 of IAS 12. But, in our view, applying the requirements in Section 29 or IAS 12 would not necessarily result in entities (including SMEs) disclosing its current tax expense (income) related to Pillar Two income taxes.

40. Therefore, we think the IASB should propose to require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes because:

    (a) this information would help users of financial statements understand the magnitude of Pillar Two income relative to an SME's overall tax expense—disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements; and

    (b) preparing the information would not be costly because an SME is already required to recognise current tax related to Pillar Two income taxes.

Disclosures—periods before legislation is in effect

41. After considering the feedback on the Exposure Draft, the IASB decided to include in IAS 12 a disclosure objective for an entity to disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from Pillar Two legislation that is enacted or substantively enacted but not yet in effect. See paragraphs 17–18 of this paper and Appendix B.

42. Paragraph 29.38 of the *IFRS for SMEs* Accounting Standard states:

    > An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

43. The disclosure objective in paragraph 29.38 (which applies to all income tax consequences) is not the same as the objective developed as part of the IAS 12

amendments (which specifically deals with exposure to the Pillar Two income taxes). Nonetheless, in our view the objective in paragraph 29.38 would result in SMEs affected by the Pillar Two legislation providing some information about their exposure in the periods before the legislation is in effect.

44. Although it is still uncertain when jurisdictions will implement the Pillar Two model rules, feedback to the Exposure Draft *International Tax Reform—Pillar Two Model Rules* confirmed many jurisdictions are expected to enact Pillar Two legislation during 2023 and make the legislation effective from 1 January 2024. Consequently, any potential amendments to introduce disclosure requirements or amend existing disclosure requirements for periods before legislation is in effect would only be applied for a relatively short period—that is, by SMEs with annual reporting periods beginning on or after 1 January 2023 and in periods in which Pillar Two legislation is not yet in effect (1 January 2024 in many jurisdictions).[10]

45. In addition, we do not recommend the IASB include in the *IFRS for SMEs* Accounting Standard the specific disclosure requirements included in the amendment to IAS 12 that apply in periods before legislation is in effect. Not recommending specific disclosure requirements would not impair faithful representation because SMEs need to apply materiality judgements in deciding what information to disclose to meet the disclosure objective in paragraph 29.38.

46. Paragraph 29.38 already requires SMEs to disclose 'information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events’. In deciding which information to disclose to meet the disclosure objective in paragraph 29.38, an SME could look to the disclosure requirements prescribed in the amendments to IAS 12 applying paragraphs 10.4–10.6 of the *IFRS for SMEs* Accounting Standard. This is further highlighted in paragraph P17 of the Preface to the *IFRS for SMEs* Accounting Standard, which states: ‘SMEs shall not anticipate or apply changes made in full IFRS

[10] The *IFRS for SMEs* Accounting Standard does not address presentation of interim financial reports by SMEs.

before those changes are incorporated into the *IFRS for SMEs* unless, in the absence of specific guidance in the *IFRS for SMEs*, an SME chooses to apply guidance in full IFRS and those principles do not conflict with requirements in the hierarchy in paragraphs 10.4–10.5.' Such an approach might be followed by a subsidiary of a group that applies the amendments to IAS 12 in the group's consolidated financial statements.

47. Therefore, we think the IASB should not propose any amendments to the disclosure objective in paragraph 29.38. In our view:

(a) the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standard applies to all income taxes within the scope of Section 29, whereas the amendments to IAS 12 introduce a disclosure objective for information relating to Pillar Two income taxes only. Therefore, any potential amendments to paragraph 29.38 could have unintended consequences.

(b) information needs of users of SMEs' financial statements are different from those of users of financial statements of entities applying full IFRS Accounting Standards.[11] So, to meet the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standard, SMEs may need to disclose information that is not necessarily the same as information disclosed by entities applying IAS 12.

(c) based on the feedback, subsidiaries (of large multinational enterprises) applying the *IFRS for SMEs* Accounting Standards might be in the scope of the Pillar Two legislation. So, preparing financial statements applying the *IFRS for SMEs* Accounting Standard, SMEs will be able to build on the

[11] For example, users of financial statements of SMEs may have greater interest in short-term cash flows, liquidity, balance sheet strength and interest coverage, and in the historical trends of profit or loss and interest coverage, than they do in information that is intended to assist in making forecasts of an entity's long-term cash flows, profit or loss, and value [of the reporting entity]. However, users of financial statements of SMEs may need some information that is not ordinarily presented in the financial statements of listed entities. For example, as an alternative to the public capital markets, SMEs often obtain capital from shareholders, directors and suppliers, and shareholders and directors often pledge personal assets so that the SMEs can obtain bank financing. Full IFRS Accounting Standards have been designed to serve public capital markets by providing financial information especially intended for investors and creditors in such markets (paragraph BC76 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard). Hence, some disclosures in full IFRS Accounting Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs (paragraph BC157(f) of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard).

experience of entities within their groups that apply full IFRS Accounting Standards. We expect that the assessment of the group's exposure to Pillar Two income taxes will provide some information for individual entities within the group.

(d) stakeholders have not raised concerns about the applicability of the disclosure objective in paragraph 29.38 of the Accounting Standard in the first or second comprehensive review.

(e) there would be no additional costs of implementing new disclosure requirements, if the IASB agrees with our recommendation not to propose any amendments to the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standard.

Effects analysis

48. We expect the benefits of the proposed amendments to Section 29 of the *IFRS for SMEs* Accounting Standard to outweigh the costs because the proposed amendments would:

(a) provide timely relief for affected SMEs and would avoid diverse applications of deferred tax requirements in relation to Pillar Two legislation;

(b) safeguard the usefulness of the information that results from SMEs applying the Accounting Standard until questions about how to apply Section 29 of the Accounting Standard to Pillar Two income taxes have been resolved; and

(c) improve the information provided to users of SMEs' financial statements in periods when Pillar Two legislation is in effect.

Transition and effective date

Background—amendments to IAS 12

49. After considering the feedback, the IASB decided to finalise the proposal to require an entity to apply the temporary exception—and to disclose that it has applied the exception—immediately upon issue of the amendments and retrospectively.

50. The IASB also decided to finalise the proposal to require an entity applying IAS 12 to disclose separately its current tax expense (income) related to Pillar Two income taxes for annual reporting periods beginning on or after 1 January 2023 but to exempt an entity from applying these requirements for interim periods ending on or before 31 December 2023.

Proposed amendments to the IFRS for SMEs *Accounting Standard*

51. We think the temporary exception would need to be available to SMEs immediately upon issue of the amendments and applicable to any financial statements not yet authorised for issue at that date. Otherwise, SMEs might be penalised compared to entities applying full IFRS Accounting Standards. Therefore, we recommend the IASB propose to require an SME to apply the temporary exception—and to disclose that it has applied the exception—immediately upon the issue of the amendments and retrospectively. This requirement would allow an SME to apply the exception from the date Pillar Two legislation is enacted or substantively enacted—even if that date is before the issue date of the amendments—and would not result in additional costs for SMEs.

52. We think the IASB should propose to require SMEs to disclose separately current tax expense (income) related to Pillar Two income taxes for annual reporting periods beginning on or after 1 January 2023. We do not expect disclosing this information to be costly because when legislation is in effect, an SME is already required to recognise current tax related to Pillar Two income taxes.

Due process

Comment period

53. The staff are recommending a 45-day comment period to enable the IASB to finalise any amendments to the *IFRS for SMEs* Accounting Standard urgently, while providing sufficient time for stakeholders to comment on the proposals. In recommending a 45-day comment period we considered the following:

    (a) The Pillar Two model rules are relevant to only a subset of SMEs, which are either subsidiaries of large multinational enterprises (which will be already assessing their exposure and preparing to comply with Pillar Two legislation) or large SMEs generating revenues exceeding the thresholds specified in the Pillar Two model rules. Consequently, the matter will affect only that subset of SMEs, many of which are likely to be familiar with the issue and have the resources to respond quickly.

    (b) The Exposure Draft *International Tax Reform—Pillar Two Model Rules* was open for comments for 60 days and (by the comment letter deadline) the IASB received 94 comment letters from a broad range of stakeholders across all regions, suggesting that a shortened comment period did not impair stakeholders' ability to respond. This feedback will help to inform the IASB in developing the narrow-scope amendment to the *IFRS for SMEs* Accounting Standard. Similarly, affected SMEs will be able to build on this feedback and the IASB's deliberations, which will inform their views on the proposals and mean they require less time to understand the matter.

    (c) The proposed amendments would be narrower in scope than the proposed amendments to IAS 12—the staff are not recommending new disclosure requirements in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect. This is because the *IFRS for SMEs* Accounting Standard has different disclosure requirements to full IFRS

Accounting Standards and the staff is proposing the IASB uses those disclosure requirements, rather than propose new disclosure requirements.

(d) We expect some respondents to the proposed amendments to the *IFRS for SMEs* Accounting Standard to be the same as the respondents to the Exposure Draft (for example, national standard-setters, large accounting firms).

(e) The IASB would need to finalise any amendments expeditiously for them to be effective.

(f) The proposed amendments respond to stakeholders' concerns about the urgent need for clarity given the imminent implementation of the Pillar Two model rules in various jurisdictions around the world.

(g) The proposed amendments would support consistent application of the *IFRS for SMEs* Accounting Standard for the benefits of users of SMEs' financial statements.

(h) The IASB may consider using an online survey, to help stakeholders respond within the shortened comment period.

(i) Overall, the IASB received positive feedback on the Exposure Draft of the proposed amendments to IAS 12. In particular, almost all respondents agreed with the proposed temporary exception to the accounting for deferred taxes.

Intention to dissent

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

Confirmation of the due process steps

55. In our view, the IASB has undertaken all the due process activities identified as being required in the *Due Process Handbook* and, thus, is able to publish the exposure draft. Appendix A summarises the due process steps taken in developing the proposals—the applicable due process steps to date for issuing the amendments have been completed.

56. 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 complied with the applicable due process steps.

Staff recommendations

57. The staff recommend the IASB propose amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard:

   (a) to introduce a temporary exception from accounting for deferred taxes related to Pillar Two income taxes;

   (b) to make the temporary exception mandatory;

   (c) not to specify how long the temporary exception will be in place;

   (d) to require an SME to disclose that it has applied the temporary exception; and

   (e) to require an SME to apply these amendments immediately upon their issuance and retrospectively in accordance with Section 10 of the Accounting Standard.

58. For periods when Pillar Two legislation is in effect, the staff recommend the IASB also proposes amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard to require an SME:

   (a) to disclose its current tax expense related to Pillar Two income tax; and

   (b) to apply this disclosure requirement for annual reporting periods beginning on or after 1 January 2023.

59. For the reasons explained in paragraphs 41–47 of this paper, we recommend:

   (a) clarifying that the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standards applies to the entity's exposure to Pillar Two income taxes; and

   (b) not introducing new disclosure requirements in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect.

Questions for the IASB

Proposed amendments

1. Does the IASB agree with the staff recommendations to amend Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard:
   (a) to introduce a temporary exception from accounting for deferred taxes related to Pillar Two income taxes;
   (b) to make the temporary exception mandatory;
   (c) not to specify how long the temporary exception will be in place;
   (d) to require an SME to disclose that it has applied the temporary exception; and
   (e) to require an SME to apply these amendments immediately upon their issuance and retrospectively in accordance with Section 10 of the Accounting Standard?
2. Does the IASB agree with the staff recommendations to amend Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard to require an SME:
   (a) to disclose its current tax expense related to Pillar Two income tax; and
   (b) to apply this disclosure requirement for annual reporting periods beginning on or after 1 January 2023?
3. Does the IASB agree with the staff recommendation:
   (a) to clarify that the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Accounting Standards applies to information about the entity's exposure to Pillar Two income taxes; and
   (b) not to introduce new disclosure requirements in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect?
4. Does the IASB agree with the staff recommendation to make consequential amendments in Section 35 of the *IFRS for SMEs* Accounting Standard (paragraph 36 of the paper)?

Due process

5. Does the IASB agree with the staff recommendation to ask the DPOC to approve a 45-day comment period for the Exposure Draft of proposed amendments to the *IFRS for SMEs* Accounting Standard?
6. Is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
7. Does any IASB member intend to dissent from the proposals in the Exposure Draft?

Appendix A—due process steps

A1. The following table summarises the required due process steps taken in developing the proposed amendments. The table does not list all the optional steps.

Step	Actions
IASB meetings are held in public, with papers available for observers. All decisions are made in public sessions	• The IASB discussed this matter in public at its April 2023 meeting and is discussing the matter in public at this meeting.
Consultation with the Trustees and the Advisory Council	• The Trustees and Advisory Council will be updated on the project as part of their discussions of the IASB's technical activities.
Analysis of likely effects of the forthcoming IFRS Accounting Standard or major amendment, for example, initial costs or ongoing associated costs	• The proposed amendments would provide timely relief to affected entities and avoid different interpretations of Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard developing in practice. We think this would safeguard the usefulness of the information that results from applying the Accounting Standard until questions have been resolved. • We expect the amendments to reduce the costs that entities would incur in applying the requirements in the *IFRS for SMEs* Accounting Standard in the context of the Pillar Two model rules. • Because the amendments are narrow in scope, we see no need to have a separate effects analysis.
Finalisation	
Due process steps reviewed by the IASB	• This paper asks the IASB to review the due process steps for the project.
The Exposure Draft has an appropriate comment period	• In May 2023 the IASB will request approval from the Due Process Oversight Committee (DPOC) for a shortened comment period of 45 days for the Exposure Draft in accordance with paragraph 6.7 of the *Due Process Handbook*. The comment period is less than the minimum period specified in paragraph 6.7 of the *Due Process Handbook* but more than 30 days. Therefore, approval from the DPOC was required.
Drafting	
Drafting quality assurance steps are adequate	• The translations, editorial and taxonomy teams will review drafts during the balloting process.

Publication	
Exposure Draft published	• The Exposure Draft will be made available on the project website when published.
Press release to announce publication of the Exposure Draft	• A press release will be published on our website with the Exposure Draft.

Appendix B—proposed amendments to IAS 12 *Income Taxes*

B1. This Appendix includes amendments to IAS 12 *Income Taxes* proposed in the Exposure Draft *International Tax Reform—Pillar Two Model Rules*, published in January 2023.

[Draft] Amendments to IAS 12 *Income Taxes*

Paragraphs 4A, 88A–88C (and their related heading) 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, including tax law that implements qualified domestic minimum top-up taxes described in those rules.[12] 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.

[12] The Pillar Two model rules are available at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.htm.

88C 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:

(a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.

(b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86) for the current period is below 15%. The entity shall also disclose the tax expense (income) and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.

(c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:

(i) identified in applying paragraph 88C(b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or

(ii) not identified in applying paragraph 88C(b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

Effective date

…

98M *International Tax Reform—Pillar Two Model Rules*, issued in [Month] 2023, added paragraphs 4A and 88A–88C. An entity shall apply:

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

(b) paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.

Appendix C—excerpts from the supplementary IASB® *Update* April 2023

C1. This Appendix includes preliminary decisions of the IASB at its supplementary meeting in April 2023.

The IASB met to consider feedback on its Exposure Draft *International Tax Reform—Pillar Two Model Rules*, which proposed amendments to IAS 12 *Income Taxes*; and to decide how to proceed with the project.

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

The IASB discussed its proposals to introduce a temporary exception to the requirements in IAS 12 for an entity to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB tentatively decided to finalise its proposals:

a. to introduce the temporary exception;
b. to make the temporary exception mandatory; and
c. not to specify how long the temporary exception will be in place.

All 13 IASB members present agreed with these decisions. One member was absent.

The IASB also tentatively decided:

a. to make no change to the scope of the temporary exception.
   All 13 IASB members present agreed with this decision. One member was absent.
b. to finalise the proposal to require an entity to disclose that it has applied the temporary exception.
   Eight of 13 IASB members agreed with this decision. One member was absent.

Disclosures (Agenda Paper 12B)

The IASB discussed its proposals to require an entity to disclose specific information to users of financial statements before and after the Pillar Two model rules are in effect.

The IASB tentatively decided to require that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity:

a. disclose information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation.
   Eleven of 13 IASB members present agreed with this decision. One member was absent.
b. meet that disclosure objective by disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to reflect all 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 would instead be required to disclose a statement to that effect.
   Ten of 13 IASB members present agreed with this decision. One member was absent.

The IASB also tentatively decided to require that, to the extent information is not known or reasonably estimable, an entity disclose information about the progress the entity has made in assessing its exposure to Pillar Two income taxes.

All 13 IASB members present agreed with this decision. One member was absent.

The IASB tentatively decided to finalise the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Twelve of 13 IASB members present agreed with this decision. One member was absent.