
IASB[®] meeting

Date	January 2024
Project	IFRS Accounting Taxonomy
Topic	Feedback on Proposed IFRS Taxonomy Update—<i>International Tax Reform—Pillar Two Model Rules, Supplier Finance Arrangements and Lack of Exchangeability</i>
Contacts	Jatin Garach (jgarach@ifrs.org) Owen Jones (ojones@ifrs.org)

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Introduction and purpose

1. In October 2023, the IASB published the Proposed IFRS Taxonomy Update—*International Tax Reform—Pillar Two Model Rules, Supplier Finance Arrangements and Lack of Exchangeability*. The 60-day comment letter period closed on 4 December 2023.
2. The Proposed IFRS Taxonomy Update (PTU) included proposals for changes to the IFRS Accounting Taxonomy to reflect disclosure requirements arising from:
 - (a) *International Tax Reform—Pillar Two Model Rules*, which amended IAS 12 *Income Taxes* and was issued in May 2023;
 - (b) *International Tax Reform—Pillar Two Model Rules*, which amended Section 29 of the *IFRS for SMEs* Standard and was issued in September 2023;
 - (c) *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* and was issued in May 2023; and
 - (d) *Lack of Exchangeability*, which amended IAS 21 *The Effects of Changes in Foreign Exchange Rates* and was issued in August 2023.
3. The purpose of this meeting is to:
 - (a) summarise the feedback received on the PTU and the staff analysis thereof;
 - (b) summarise the next steps in the publication of the IFRS Taxonomy Update; and
 - (c) ask the IASB if they have any questions or comments on the feedback received or next steps.

Structure of the paper

4. This paper is structured as follows:
 - (a) Summary of proposals (paragraphs 5–14);
 - (b) Summary of feedback and staff analysis (paragraphs 15–38); and
 - (c) Next steps (paragraphs 39–40).

Summary of proposals

International Tax Reform—Pillar Two Model Rules

5. *International Tax Reform—Pillar Two Model Rules* (Amendments to IAS 12 *Income Taxes*) introduces a temporary exception to the accounting for deferred tax assets and liabilities related to Pillar Two income taxes. The amendment also adds targeted disclosure requirements for affected entities including information about an entity's exposure to Pillar Two income taxes and current tax expense related to Pillar Two income taxes.
6. The IASB proposed to add:
 - (a) one text element to reflect the disclosure that the entity has applied the temporary exception to deferred tax accounting in accordance with paragraphs 4A and 88A of IAS 12;
 - (b) one text block element to reflect the disclosure of qualitative and quantitative information about an entity's exposure to Pillar Two income taxes for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect and one text block element to reflect the disclosure of the statement that information relating to its exposure to Pillar Two income taxes is not known or reasonably estimable and the entity's progress in assessing its exposure; and
 - (c) one monetary element to reflect the disclosure of the current tax expense (income) related to Pillar Two income taxes for periods when Pillar Two legislation is in effect, in accordance with paragraph 88B of IAS 12.
7. The IASB also proposed to add similar elements corresponding to paragraphs 6(a) and 6(c) of this staff paper to reflect similar disclosure requirements in the *International Tax Reform—Pillar Two Model Rules* (Amendments to the *IFRS for SMEs* Standard).

Supplier Finance Arrangements

8. *Supplier Finance Arrangements* describes the characteristics of supplier finance arrangements that give rise to information needs of users of financial statements. This amendment also introduces requirements for an entity to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.
9. The IASB proposed to add one overall text block element to reflect the disclosure objective in paragraph 44F of IAS 7, and consequently the entire disclosure of supplier finance arrangements, which is consistent with typical Taxonomy modelling practice.
10. The IASB proposed to add:
 - (a) one text block element to reflect the disclosure of the terms and conditions of supplier finance arrangements, including the disclosure of arrangements that have dissimilar terms and conditions. The IASB did not model a separate element for the disclosure of dissimilar terms and conditions because users of digital financial reports may not find such information useful without also understanding the context of the general terms and conditions of the supplier finance arrangements.
 - (b) two tables and one text block element to reflect the disclosure requirements in paragraph 44H(b) of IAS 7:
 - (i) the first table comprises two monetary elements to reflect information about the carrying amount of financial liabilities that are part of supplier finance arrangements at the beginning and end of the reporting period, disaggregated by the line items in which those financial liabilities are presented;
 - (ii) the second table comprises two duration elements to reflect information about the number of days between the invoice date and payment date for financial liabilities that are part of supplier finance arrangements at the beginning and end of the reporting period, disaggregated by the range of payment due dates; and
 - (iii) a text block element for the disclosure of explanatory information about the ranges of payment due dates if those ranges are wide.
 - (c) one text block element and three monetary elements to reflect the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of supplier finance arrangements.

Lack of Exchangeability

11. *Lack of Exchangeability* requires entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not. This amendment also introduces disclosure requirements to provide users with information about the nature and financial effects of a currency not being exchangeable into another currency, the spot exchange rate and estimation process used, and the risks to which the entity is exposed as a result of a currency not being exchangeable into another currency.
12. The IASB proposed to add one overall text block element to reflect the disclosure objective in paragraph 57A of IAS 21, and consequently, the information disclosed in accordance with paragraphs A18–A20 of IAS 21 would be captured using this overall text block element.
13. In addition to the overall text block element, the IASB proposed to add three tables for specific requirements in paragraphs A19 and A20 of IAS 21:
 - (a) the first table comprises two monetary elements to reflect the disclosure of the carrying amount of affected assets or liabilities when a currency is not exchangeable into another currency, in accordance with paragraph A19(c) of IAS 21;
 - (b) the second table comprises one text block element and two monetary elements to reflect the disclosure of qualitative information about the risk to which the entity is exposed, and the nature and carrying amounts of assets and liabilities exposed to the risk, when a currency is not exchangeable into another currency, in accordance with paragraph A19(f) of IAS 21; and
 - (c) the third table comprises one text block element to reflect the disclosure of information when a foreign operation's functional currency is not exchangeable into the presentation currency or vice versa, in accordance with paragraph A20 of IAS 21.
14. The IASB did not model separate elements for paragraphs A19(a)–(b), and (d)–(e) of IAS 21 because the information disclosed in accordance with those paragraphs would be captured via lower-level text or text block elements which would not be additionally useful to users over and above the overall text block.

Summary of feedback and staff analysis

15. We received two comment letters from stakeholders in Africa and International.¹ Both responses were received from accounting firms. We also received feedback on a general modelling policy from the October 2023 ITCG meeting, that could be applied to modelling proposals in this PTU.
16. Broadly, respondents were supportive of the proposals in the PTU, with specific comments and alternative suggestions discussed in this paper.
17. Respondents suggested improving element and documentation labels for a few elements and more granular elements for narrative disclosures. We agree with most suggestions except those relating to more granular elements for narrative disclosures.

Supplier Finance Arrangements

Link between disclosure objective and disclosure requirements

18. One respondent commented that the elements proposed for the disclosure objective in paragraph 44F of IAS 7 and how that disclosure objective is met in paragraph 44H of IAS 7 appear disconnected. The respondent suggested:
 - (a) including the elements relating to paragraph 44H of IAS 7 as ‘sub-elements’ to the overall text block element relating to paragraph 44F of IAS 7; and
 - (b) creating an ‘other’ element to tag additional information that meets the disclosure objective but is not specifically required by paragraph 44H of IAS 7.
19. As it is currently modelled, the elements relating to paragraph 44H of IAS 7 are included as child elements of the overall text block element relating to paragraph 44F of IAS 7 in the presentation linkbase. In our view, the presentation structure, read with the element reference, is sufficient to communicate the link between the elements relating to the disclosure objective and how that disclosure objective is met.
20. We do not plan to create an ‘other’ element as suggested because any additional information that is disclosed to meet the disclosure objective would not necessarily be comparable across entities and may be included in multiple parts of the disclosure on supplier finance arrangements. This information may not be easily identifiable for tagging or comparable for users and would be captured in the proposed overall text block in any case.

¹ All comment letters are available [here](#).

Elements relating to the disclosure of terms and conditions of supplier finance arrangements

21. One respondent commented that the proposed element to reflect the disclosure of terms and conditions of supplier finance arrangements could be misinterpreted to mean that dissimilar terms may be aggregated with the general terms and conditions. The respondent suggested amending the wording of the documentation label and suggested creating a separate text block element for each dissimilar terms and conditions.
22. We plan to amend the documentation label for the element ‘Disclosure of terms and conditions of supplier finance arrangements’ to clarify that the element shall be used to capture the disclosure of terms and conditions of supplier finance arrangements and the disclosure of dissimilar terms and conditions.
23. According to Taxonomy modelling practice, distinct elements should be created for narrative information that is expected to be both separately understandable to users and easily identifiable for tagging. In our view, it would not be useful to create a separate text block element for each dissimilar terms and conditions because the information captured by these separate elements would not be comparable across entities and would not be useful without the context of the general terms and conditions of supplier finance arrangements to which the entity is party.

Dimensional modelling approach

24. At the October 2023 ITCG meeting, members discussed a new general modelling policy for IFRS Taxonomies in the context of disclosure requirements in forthcoming IFRS 18 *Primary Financial Statements*—that is, with respect to dimensional modelling, to model primary financial statement concepts as line items instead of as members to an axis.
25. The advantages of this modelling approach are that:
 - (a) it would provide a link between concepts presented in the primary financial statements and disclosed in the notes because the same line-item elements are used, thus making the disclosed information easier to tag; and
 - (b) the resulting digital financial information could be interpreted more intuitively by users.
26. Currently, to reflect the disclosure requirements in paragraphs 44H(b)(i)–(ii) of IAS 7:
 - (a) the line items in which financial liabilities that are part of supplier finance arrangements are presented (i.e. the primary financial statement concepts) are modelled using separate members to an axis to reflect each line item in the statement of financial position; and

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- (b) the carrying amounts of those financial liabilities are modelled as line item concepts.
27. By applying the new general modelling policy to the disclosure requirements in paragraphs 44H(b)(i)–(ii) of IAS 7:
- (a) the carrying amount of the financial liabilities (i.e. the primary financial statement concepts) would be modelled as line item concepts (for example, using the existing monetary element for financial liabilities); and
- (b) the amounts of those financial liabilities that are part of supplier finance arrangements and for which suppliers have received payment would be modelled as separate members to an axis, representing separate characteristics of those financial liabilities.
28. We plan to apply the new general modelling policy to the disclosure requirements in paragraphs 44H(b)(i)–(ii) of IAS 7. This approach would still reflect the same disclosed information as the proposed modelling approach but would be more intuitive for preparers and users.

Appropriate use of element and documentation labels

29. One respondent commented that the proposed element label for the ‘number of days to the payment due date’ does not make it clear that the disclosure requirement refers to the number of days between invoice date and payment due date. The respondent suggested that these labels be amended so that they align with the wording of the disclosure requirement in paragraph 44H(b)(iii) of IAS 7.
30. We agree with the suggestion and plan to amend the element and documentation labels to clarify that the element refers to the number of days between the invoice date and the payment due date for financial liabilities that are part of supplier finance arrangements.

Elements relating to amendments to IFRS 7

31. One respondent commented that the PTU did not reference the amendments to IFRS 7 *Financial Instrument: Disclosures* and suggested that the Taxonomy is updated to reflect the new example added to paragraph B11F of IFRS 7.
32. The IFRS Accounting Taxonomy does not currently include elements reflecting the factors that an entity might consider in disclosing how it manages its liquidity risk. We will consider this in a future general improvements and common practice review.

Lack of Exchangeability

Granularity of narrative disclosures

33. One respondent suggested that, in addition to the overall text block element, separate ‘sub-elements’ should be created for each subparagraph in paragraphs A19(a)–(f) of IAS 21, to align with the structure of the disclosure requirement.
34. The information disclosed in accordance with paragraphs A19(a)–(b), and (d)–(e) of IAS 21 may be modelled using lower-level text or text block elements. However, such elements would not be additionally useful to users of digital financial reports over and above the proposed overall text block element, since the overall text block element would capture all the disclosed information when a currency is not exchangeable into another currency.
35. As per Taxonomy modelling practice, distinct elements should be created for narrative information that is expected to be both separately understandable to users and easily identifiable for tagging. Accordingly, we do not plan to create separate elements for each subparagraph in paragraphs A19(a)–(f) of IAS 21.

Appropriate use of element and documentation labels

36. One respondent noted that the element and documentation labels of the proposed element for the ‘Disclosure of summarised financial information about foreign operation’ refer only to when the foreign operation’s functional currency is not exchangeable into the entity’s presentation currency, while the requirements of IAS 21 explain that a currency could be exchangeable in one direction but not the other. The respondent suggested that these labels be amended so that they reflect a lack of exchangeability in both directions.
37. We agree with this suggestion and plan to amend the wording in the documentation label to clarify that the element ‘Disclosure of summarised financial information about foreign operation’ should be used when a foreign operation’s functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation’s functional currency.
38. We do not plan to amend the element label because our approach is to keep element labels succinct where possible, with further descriptions of the element included in the documentation label. In our view, the element label, read with documentation label, is sufficient for preparers and users to understand that the element ‘Disclosure of summarised financial information about foreign operation’ should be used when a foreign operation’s functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation’s functional currency.

Next steps

39. The IFRS Taxonomy Update will be balloted at the end of January 2024 incorporating the changes discussed in this staff paper.
40. We plan to issue the final IFRS Taxonomy Update, along with final taxonomy files, with the release of the 2024 IFRS Accounting Taxonomy in March 2024.

Questions for the IASB

1. Does the IASB have any questions or comments on the feedback received or next steps in the publication of IFRS Taxonomy Update—*International Tax Reform—Pillar Two Model Rules, Supplier Finance Arrangements and Lack of Exchangeability*?