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Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
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London E14 4HD

Submission by e-mail: commentletters@ifrs.org

13 July 2023

Re: Exposure Draft ED/2023/3 – International Tax Reform – Pillar Two Model Rules Proposed Amendments to the *IFRS for SMEs* Standard

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent assurance, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2023/1 – International Tax Reform – Pillar Two Model Rules Proposed Amendments to IAS 12 ('the ED').

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We would like to highlight that we are supportive of the IASB's proposed exception from IAS 12 *Income Taxes* in respect of Pillar Two legislation, the proposed additional disclosures, and the timeframe for the introduction of the amendment into IAS 12 *Income Taxes*.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,



Marion Hannon
Global Leader, Quality & Risk
RSM International

APPENDIX

Question 1—Temporary exception to accounting for deferred taxes (proposed new paragraphs 29.3A and 29.42))

Section 29 Income Tax of the IFRS for SMEs Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The IASB proposes that, as a temporary exception to the requirements in Section 29, an SME neither recognise deferred tax assets and liabilities related to Pillar Two income taxes nor disclose information that would otherwise be required by paragraphs 29.39–29.41 about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB also proposes to require an SME to disclose that it has applied the exception. Paragraphs BC11–BC16 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with these proposals, please explain what you would suggest instead and why.

We agree with the proposed exception in paragraph 29.3A for an entity to neither recognise or disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. We also agree with the proposal to disclose the application of the exception.

We believe that this exception is necessary to enable both the IASB and entities impacted, to consider the implication of Pillar Two model rules on deferred tax accounting. Furthermore, given that the timing of enactment of Pillar Two model rules will vary across multiple jurisdictions, our view is that the proposed exception will ensure that financial statements remain comparable and provide users with relevant, useful information.

Finally, we believe that the proposed exception will avoid diverse interpretation and application of the requirements of Section 29 of the *IFRS for SMEs* Standard.

Question 2—Disclosures (amended paragraph 29.38 and proposed new paragraph 29.43)

This Exposure Draft proposes:

- (a) to clarify that ‘other events’ in the disclosure objective in paragraph 29.38 of the Standard include enacted or substantively enacted Pillar Two legislation; and
- (b) not to introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted but not yet in effect.

Paragraphs BC18–BC20 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

In periods when Pillar Two legislation is in effect, the IASB proposes to require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraph BC21 of the Basis for Conclusions explains the IASB’s rationale for this proposal.

Do you agree with these proposals? Why or why not? If you disagree with these proposals, please explain what you would suggest instead and why.

We agree with the proposed amendment to paragraph 29.38 clarifying if Pillar Two legislation is enacted or substantively, it should be disclosed in the financial statements.

We agree with the IASBs decision to not introduce new disclosures relating to Pillar Two where the legislation is enacted or substantively enacted but not yet in effect.

Furthermore, we agree with the proposal for entities to disclose separately its current tax expense (income) related to Pillar Two legislation in periods in which Pillar Two legislation is in effect. This disclosure will facilitate comparability between entity's financial statements, providing useful and relevant information to enable users to understand the impact of Pillar Two income taxes relative to the total tax expense

Question 3—Effective date and transition (proposed new paragraph A4)

The IASB proposes that an SME 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.

Paragraphs BC23–BC25 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with these proposals, please explain what you would suggest instead and why.

We agree with the proposed effective date of the exception and the introduction of the disclosure requirements. We believe that that amendments should be immediately available on the issue of the amendment.

Furthermore, we agree that retrospective application is appropriate as it would result in entities applying the exception from the date Pillar Two legislation is enacted or substantially enacted in the jurisdictions it operates.

We have no other comments on the ED.

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