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Amendment IAS 12 – International Tax Reform – Pillar Two Model Rules Cover Note

Objective

- 1 The objectives of this session are to:
 - (a) provide a summary of the feedback received in response to EFRAG's preparatory draft for its Endorsement Advice letter on Amendments to IAS 12 - International Tax Reform-Pillar Two Model Rules; and
 - (b) discuss and approve the Endorsement Advice letter on the Amendments to IAS 12.

Background of the project

- 2 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 International Tax Reform-Pillar Two Model Rules (Proposed Amendments to IAS 12) ("the [ED](#)") with a comment period ending 10 March 2023.
- 3 The ED proposed to introduce:
 - (a) a (mandatory) temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and
 - (b) targeted disclosure requirements:
 - (i) before; and
 - (ii) after the Pillar two model rules are in effect.
- 4 EFRAG published its [draft comment letter](#) on the ED on 30 January 2023. After extensive outreach with different stakeholders EFRAG submitted its [final comment letter](#) to the IASB on 13 March 2023.
- 5 On 11 April 2023, the IASB tentatively decided to finalise its proposals as detailed in the [Supplementary IASB Update April 2023 \(the "Proposed Amendments"\)](#).
- 6 Considering the urgency of the project, EFRAG issued on 24 April 2023 a [preparatory draft of the Endorsement Advice](#) for comments in anticipation of the Endorsement Advice letter on the basis of the tentative decisions made by the IASB on 11 April 2023 and the ED. The comment period for the preparatory draft ended on 24 May 2023.
- 7 The issuance of a preparatory draft of the Endorsement Advice letter before the issuance of the Amendments, instead of the usual draft endorsement advice, was to expedite the finalisation of the endorsement advice after the issuance of the final Amendments because of the fast-track nature of the project. The preparatory draft of the Endorsement Advice was drafted on the assumption that the content of the Amendments would not differ substantially from the tentative decisions made by the IASB on 11 April 2023.

- 8 EFRAG's overall preliminary assessment was that the expected Amendments satisfied the criteria for endorsement for use in the EU and therefore recommended their endorsement.

The Amendments

- 9 On 23 May 2023 the IASB issued Amendments to IAS 12 - International Tax Reform—Pillar Two Model Rules (“the Amendments”), which are substantially in line with the decisions made by the IASB on 11 April 2023. A description of the Amendments is included in Appendix 1 of Agenda Paper 01-02.
- 10 The Amendments were approved by 13 of the 14 members of the IASB. Mr Gast voted against issuing the Amendments because he was concerned that the Amendments would result in an entity disclosing less useful information to help users assess an entity’s future cash flows. In his view, the disclosure requirements in IAS 12, including those introduced by the Amendments, provided insufficient information for users to analyse the changes brought by global taxation.
- 11 Even though he agreed with the introduction of the temporary exception for cost-benefit reasons, he was of the view that the requirement to disclose known or reasonably estimable information to meet the disclosure objective were not sufficiently stringent without requiring entities to provide alternative quantitative information when information was deemed not known or reasonably estimable. The absence of a backstop (e.g., information based on IAS 12 calculations as proposed in the ED) would not result in effective disclosures, which were necessary to compensate the loss of useful information for users due to the exception. He was of the view that providing no effective disclosures would be misleading and fail to meet the objective of financial statements set out in the *Conceptual Framework for Financial Reporting*.
- 12 A link to the IASB publication, on EFRAG’s website, is provided under permission of the IASB and is only valid until the publication of the Amendments in the official journal ([here](#)).
- 13 The European Commission issued a letter requesting advice on the endorsement of the Amendments on 23 May 2023 (uploaded as paper 01-04). The letter contains a normal request for advice on the endorsement and does not identify specific issues or areas to investigate.

Summary of responses received

- 14 EFRAG received six comment letters from respondents representing one preparer, three preparers’ organisation and two national standard-setters (see list of respondents and links to the comment letters in Appendix 1).
- 15 All respondents agreed with EFRAG’s initial assessment with no further comments.

EFRAG Secretariat analysis

- 16 Based on the feedback received, EFRAG Secretariat suggests no changes to the assessment in EFRAG's Final Endorsement Advice, except for the following minor editorial changes:
- (a) The update of some paragraphs to reflect the content of the Amendments, including additional explanations from the Basis for Conclusions and the numbering of the paragraphs added to IAS 12;
 - (b) Removing references to “initial” assessments, “preparatory draft” letter to the EC wherever relevant; and
 - (c) Removing the note to constituents at the beginning of the document.

- 17 The proposed Endorsement Advice letter submitted to EFRAG FR TEG reiterates the following conclusions:
- (a) EFRAG believes that the Amendments will generally bring improved financial reporting when compared to existing requirements. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship;
 - (b) EFRAG has not identified the Amendments could have any adverse effect to the European economy, including financial stability and economic growth;
 - (c) Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good; and
 - (d) Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.

Questions for EFRAG FR TEG

- 18 Does EFRAG FR TEG have any comment or question on the Amendments?
- 19 Does EFRAG FR TEG agree to recommend the Endorsement Advice letter contained in agenda paper 01-02, to the EFRAG FRB for approval?

Agenda Papers

- 20 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 01-02 – Letter to the EC regarding endorsement of Amendments to IAS 12 - International Tax Reform – Pillar Two Model Rules (clean);
 - (b) Agenda paper 01-03 – Letter to the EC regarding endorsement of Amendments to IAS 12 - International Tax Reform – Pillar Two Model Rules (mark-up); and
 - (c) Agenda paper 01-04 – EC letter requesting advice on the endorsement of the Amendments.

Appendix: List of respondents

- 1 The comment letters were received from the following organisations (links to the letters are provided with the respondents' names):

Respondent	Type	Country
Allianz SE	Preparer	Germany
German Insurance Association (GDV)	Preparers' organisation	Germany
Organismo Italiano di Contabilità (OIC)	National Standard Setter	Italy
European Savings and Retail Banking Group (ESBG)	Preparers' organisation	Europe
Insurance Europe	Preparers' organisation	Europe
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	National Standard Setter	Spain