International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

6 March 2023

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London E14 4HD
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Our Ref: 2023/O/C1/IASB/PM/124

RE: Exposure Draft | International Tax Reform – Pillar Two Model Rules – Proposed Amendments to IAS 12

Dear International Accounting Standards Board ("IASB" or "the Board") Members,

The International Organization of Securities Commissions ("IOSCO") Committee on Issuer Accounting, Auditing and Disclosure ("Committee 1") thanks you for the opportunity to provide our comments on the Exposure Draft | International Tax Reform – Pillar Two Model – Proposed Amendments to IAS 12.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 ("members" or "we") seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations - Temporary exception to the accounting for deferred taxes

Members welcome the IASB moving swiftly to address the immediate concerns raised by stakeholders around the application of IAS 12 to the Pillar Two Model Rules. Furthermore, we support the IASB's proposal to implement a mandatory temporary exception to the accounting for deferred taxes arising from

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the implementation of the Pillar Two Model Rules. We would like to emphasize the importance of providing the mandatory temporary exception as soon as practicable. Members expressed concerns around the timing of the publication of the proposed amendments. Specifically, the question arises as to whether the temporary exemption will be available for entities with off-calendar year-ends or those who report interim financial information. We therefore encourage the Board to move as expeditiously as possible without compromising due process.

We appreciate the Board has a full work plan with projects to be finalized, however, we encourage the Board to monitor the enactment of the Pillar Two Model Rules across various jurisdictions, solicit feedback from key stakeholders, and develop a plan for evaluating and providing guidance on the accounting for Pillar Two Model Rules in a timely manner. In addressing the issue, we believe that the Board should balance the need to comprehensively address the issue while also not providing an indefinite deferral, if the application of IAS 12 to the Pillar Two Model Rules is ultimately deemed appropriate. Accordingly, as an interim step, we would encourage the Board to communicate a proposed timeline for undertaking its work on this issue after it has gathered feedback from key stakeholders and has additional information available regarding the extent to which jurisdictions have actually enacted or substantively enacted Pillar Two legislation.

We also encourage the Board to leverage the outreach and work being performed by national standard setters, including the FASB, as part of its work plan, and to consider convergence to the extent possible, which may require broader standard setting in the accounting for top-up taxes.

Disclosures

Members are generally supportive of the proposed disclosures and believe they will provide useful information to users of the financial statements to help them assess an entity's exposure to Pillar Two top-up taxes. However, we do have some additional observations on certain aspects of the proposed disclosure requirements.

First, we note that the proposal does not contain specific disclosure objectives describing the needs of the users of the financial statements. We believe that specific disclosure objectives could be helpful to guide preparers in assessing materiality in developing disclosures so that entities do not obscure material information with immaterial information. Additionally, for example, the Board could provide guidance about how an entity considers the GloBE[1] "de minimis exclusion" when identifying jurisdictions in accordance with the proposed disclosures requirements in paragraph 88C(a)–(c) to help preparers focus on material information in developing their disclosures.

In addition, we note that there may be significant judgment involved in determining whether certain jurisdictions have enacted or substantively enacted Pillar Two legislation. Accordingly, we encourage the Board to require disclosure about recent tax legislation in jurisdictions in which the entity operates, but for which the entity has determined that the jurisdictions have not enacted or substantially enacted Pillar Two legislation, and any significant judgments that the entity has made in making that determination. One example would be a domestic minimum tax that has been enacted in a jurisdiction that is not deemed to meet the requirements of Pillar Two. Further if not deemed to meet the requirements of Pillar Two, we would encourage the IASB to clarify the applicability of this exception, and any incremental disclosures, to substantially similar top-up taxes.

The IASB should also consider adding a disclosure requirement requiring entities to provide qualitative information about the uncertainties in the disclosures provided. There may be differences between the estimated effective tax rate and tax expense calculated in accordance with paragraph 88C(b) and the amounts calculated in accordance with Pillar Two Model Rules.

Furthermore, we support the Board's proposed requirement for entities to disclose current tax expense (income) related to Pillar Two income taxes in the period when legislation is in effect. However, we believe the information required in paragraph 88C(a)-(c) would continue to be relevant after the legislation is in effect, therefore, we encourage the IASB to consider amending the proposal to require the disclosures both in the period of enactment and in subsequent periods.

Lastly, we believe the IASB should consider developing illustrative examples and/or educational materials that would provide entities with useful examples on how one would apply the disclosure requirements contained in paragraphs 88C(a)-(c).

[1] GloBE - Global Anti-Base Erosion Rules

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Effective Date

Members generally agree with the Board's effective date proposal, however, we believe the IASB should clarify that the disclosure outlined in paragraph 88A would be applicable for interim periods as it is unclear based on paragraph 98M(a). This clarification could be added to the basis for conclusion.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

Paul Munter

Chair
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