

12 July 2023

Andreas Barckow  
Chair  
International Accounting Standards Board

Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, United Kingdom  
E14 4HD

Dear Dr Barckow

## **IASB/ED/2023/3 International Tax Reform—Pillar Two Model Rules— Proposed Amendments to the *IFRS for SMEs* Standard**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ("the IASB") Exposure Draft *International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard* ("the ED").

We welcome the responsiveness of the IASB in issuing this ED to provide a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules for the entities applying the *IFRS for SMEs* Standard. We agree that the proposals in the ED provide a reasonable solution to an urgent situation in the context of the *IFRS for SMEs* Standard.

However, we do not believe that the amendment proposed to paragraph 29.38 of the Standard is necessary. We believe that it is already understood that the "transactions and other events" referred to in this paragraph include enactment or substantive enactment of tax rates and laws. If the IASB is concerned that this may not be the case, it may be appropriate to include clarifying words "such as the enactment or substantive enactment of tax rates and laws" more broadly rather than specifically in respect of Pillar Two legislation.

In addition, we note that the amendment proposed to paragraph 35.10 specifies that a first-time adopter that applies Section 29 prospectively would nevertheless apply the amendment to paragraph 29.3A retrospectively. It is not clear how this requirement would be applied. Instead, we would expect that if the first-time adopter had recognised deferred tax amounts related to Pillar Two income taxes under its previous GAAP, these amounts would be derecognised at the date of transition to the *IFRS for SMEs* Standard and the impact recognised in equity at that date. We believe that this is consistent with other deferred tax amounts that may need to be derecognised upon initial application of the *IFRS for SMEs* Standard, even if section 29 is applied prospectively. We suggest that the IASB reconsiders whether it is appropriate to indicate that paragraph 29.3A is applied retrospectively (in the context of paragraph 35.10), and if so, clarifies what this means.

Our detailed responses to the questions in the ED are included in the Appendix.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS and Corporate Reporting Leader

## 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 proposals for the reasons explained in the BC.

### **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 proposal not to introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted but not yet in effect, and with the proposal to require disclosing separately a current tax expense (income) related to Pillar Two income taxes in periods when Pillar Two legislation is in effect for the reasons explained in the BC.

However, we do not believe that the amendment proposed to paragraph 29.38 of the Standard is necessary. We believe that it is already understood that the “transactions and other events” referred to in this paragraph include enactment or substantive enactment of tax rates and laws. If the IASB is concerned that this may not be the case, then it may be appropriate to include clarifying words “such as the enactment or substantive enactment of tax rates and laws” more broadly rather than specifically in

respect of Pillar Two legislation. Indeed, the specific example of the enactment or substantive enactment of Pillar Two legislation will rapidly cease to be a meaningful example.

Alternatively, we suggest that the proposed clarification could be made in the Basis for Conclusions instead.

### 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 proposals for the reasons explained in the BC.

However, the amendment proposed to paragraph 35.10 specifies that a first-time adopter that applies Section 29 prospectively would nevertheless apply the amendment to paragraph 29.3A retrospectively. It is not clear how this requirement would be applied. Instead, we would expect that if the first-time adopter had recognised deferred tax amounts related to Pillar Two income taxes under its previous GAAP, these amounts would be derecognised at the date of transition to the *IFRS for SMEs* Standard and the impact recognised in equity at that date. This would be consistent with other adjustments that a first-time adopter that applies Section 29 prospectively may be required to recognise at the date of transition, for example, the derecognition of a deferred tax asset recognised under the previous GAAP that does not meet the criteria for recognition under the *IFRS for SMEs* Standard. We suggest that the IASB reconsiders whether it is appropriate to indicate that paragraph 29.3A is applied retrospectively, and if so, clarifies what this means.