Ernst & Young Global Limited
6 More London Place
London
SE1 2DA
Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

INVESTOR IN PEOPLE

The International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

14 July 2023

Dear Board Members,

Invitation to comment – Exposure Draft: *International Tax Reform— Pillar Two Model Rules Proposed amendments to the IFRS for SMEs Standard*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft: *International Tax Reform— Pillar Two Model Rules Proposed amendments to the IFRS for SMEs Standard*.

We support the Board's proposal to introduce a mandatory temporary exemption to the requirements in Section 29 *Income Tax* of the IFRS for SMEs standard (the Standard) regarding the recognition of deferred tax assets and liabilities related to Pillar Two income taxes.

We agree that this is an urgent matter and warrants an amendment to the Standard to align with full IFRS outside the Board's periodic review. However, we would caution the Board to continue to assess changes to full IFRS on a case-by-case basis, in order to ensure that only urgent matters are considered outside of the periodic review and the Standard is a stable platform for Small and Medium Entities (SMEs) to apply.

We would like to stress that timely publication of the amendments is necessary as some jurisdictions are expected to (substantively) enact Pillar Two model rules during 2023.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address or on +31 88 407 1030.

Yours faithfully

Ernst & Young Global Limited

Appendix 1 – Detailed comments

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 Board's proposal to align Section 29 with the principals reflected in the recently amended IAS 12 Income Taxes, since the Pillar Two model rules are relevant to some SMEs and the proposed amendments will provide timely relief to those entities impacted.

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 to clarify that 'other events' in the disclosure objective in paragraph 29.38 of the Standard include enacted or substantively enacted Pillar Two legislation.

We also support the proposal to not introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted, but not yet in effect. This is an appropriate simplification of the IAS 12 disclosure requirements for SMEs, given the timing of enactment of the 2023 Pillar Two legislation.

We agree with the proposal to require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes, as it would not be costly or onerous for an SME to apply.

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 effective date.