

Thursday, 9 March 2023

Dr Andreas Barckow
Chair
International Accounting Standards Board
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Via email: commentletters@ifrs.org

Dear Dr Barckow

Submission on Exposure Draft (ED) 2023/1: International Tax Reform—Pillar Two Model Rules

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. We welcome the opportunity to provide feedback on the Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

The Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development (OECD) (the Rules) have the potential to significantly impact businesses operating in multiple jurisdictions. The feedback we have received from our members is that there is substantial complexity and uncertainty surrounding the implementation of the Rules, including the number of jurisdictions that will adopt the Rules and whether the benefits arising will justify the costs.

The Rules present considerable complexity from a financial reporting perspective. For example, the recasting rules use future forecasts with multiple variables, requiring organisations to estimate future taxes based on future events. It raises questions around whether a temporary difference exists at all for assets and liabilities, and if so, what the future tax rate is that should be applied to that temporary difference. Furthermore, there are practical challenges around data availability and reliability, as businesses will need to make major system changes to collect and analyse the data required to comply with the Rules.

Temporary exception

We support the IASB's proposal to introduce a mandatory temporary exception to the requirements in IAS 12 *Income Taxes* (IAS 12) to recognise and disclose information about deferred tax assets and liabilities arising from the Rules. This is a pragmatic approach as it addresses the concerns of stakeholders about the potential implications of the Rules on accounting for deferred taxes. We encourage the IASB to issue the mandatory temporary exception as soon as possible with an immediate effective date to minimise uncertainty.

As noted above, there is a great deal of uncertainty surrounding the implementation of the Rules, with the guidance still being determined. For example, while three safe harbours have been proposed, only one has been finalised so far, leaving the remaining details largely unknown. This lack of clarity means organisations are not able to disclose any assessments due to the significant judgments applied, estimation techniques involved, and assumptions about the future. Many organisations are still determining how to proceed until more detailed guidance is available. This complexity and uncertainty could lead to divergent application of IAS 12 in practice, which is not in the public interest.

Disclosure requirements

We support the IASB's efforts to establish disclosure requirements that enable users to better understand the effect that the Rules will have on an entity in the future without imposing undue cost or effort. However, we do not support proposed paragraph 88C as we believe this information would be costly to prepare, and there is doubt as to whether it would provide useful information to users of financial statements for decision making purposes. We consider that the cost of preparing the proposed disclosures in paragraph 88C would outweigh the benefits.

Proposed paragraph 88C requires the inclusion of all jurisdictions, including those where the Rules have not been enacted or substantively enacted. In our view, a requirement to disclose such information is inconsistent with the objective of the proposals in the IASB's *Disclosure Initiative* project. Introducing additional disclosure requirements can lead to excessive and boilerplate disclosures. To maintain consistency in developing these proposals further, we suggest that the IASB references the model tested in the *Disclosure Requirements in IFRS Standards – A Pilot Approach*, i.e., identifying an overall disclosure objective and specific disclosure objectives when proposing any new disclosure requirements.

It is unclear if the proposed disclosures in paragraph 88C would always be required or only required if material. Also, the proposed disclosures do not convey the level of judgment and estimation uncertainty involved in preparing the disclosures, and do not align with the requirements in paragraph 122 and 125 of IAS 1 *Presentation of Financial Statements*. These requirements only apply to amounts recognised in financial statements, not disclosures.

We note that the IASB intends to do further work on the implications of the Rules on accounting for deferred taxes. As this work is progressed, we urge the IASB to maintain a principles-based approach to standard setting as opposed to developing specific requirements for the Rules.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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