

17 July 2023

International Accounting Standards Board
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Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2023/03 – *INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES: PROPOSED AMENDMENTS TO THE IFRS FOR SMEs STANDARD*

In response to your request for comments on the ED/2023/3 – *International Tax Reform – Pillar Two Model Rules*: Proposed amendments to the IFRS for SMEs Standard, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA).

This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC). The APC comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Sadiki
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

GENERAL COMMENTS

We welcome the proposals in the Exposure Draft (ED) and appreciate the International Accounting Standards Board's (IASB or Board) objective to address the uncertainty that may arise from adopting the Pillar 2 Model for International Tax Reform (tax reform) proposed by the Organisation for Economic Development (OECD) in a timely manner as it relates to the IFRS for SMEs standard.

We note that the IASB concluded in the amendments to IAS 12 – *Income Taxes* during May 2023, that it was not possible to determine a timeframe or duration relative to the application of the temporary exemption.

We also note that the IASB is currently performing a Second Comprehensive Review of the IFRS for SMEs Accounting Standard, which it issued in 2009 and amended in 2015. We understand the necessity for the process implemented in aligning IFRS for SMEs with full IFRS Accounting Standards.

As a result of the duration over which this process may extend, we recommend that upon withdrawal of the temporary exemption from IAS 12, a corresponding amendment is processed to the IFRS for SMEs Standard.

SPECIFIC 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 proposed amendments and have no further comments.

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 proposed amendments. However, we note that in the finalised amendments to IAS 12 released during May 2023, specifically as it relates to paragraph 88C and 88D of IAS 12, that an equivalent disclosure requirement was not included in the required disclosure per Section 29 paragraph 38.

We recommend that the Board consider including an equivalent disclosure requirement in Section 29 of the IFRS for SMEs Standard. We consider the disclosure requirement under full IFRS useful information to all users of financial statements. We suggest this amendment as the IFRS for SME’s standard is adopted by a wide range of entities with users of varying needs.

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.*
- d) *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 proposed amendments and have no further comments.