



Brasilia, July 17th, 2023

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary wharf
London

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

Dear Board members:

The “Group of Latin American Accounting Standard Setters”¹ – GLASS appreciates the opportunity to comment on the Exposure Draft: International Tax Reform—Pillar Two Model Rules. Proposed amendments to the *IFRS for SMEs* Standard (the ED).

Due process

Discussions about this ED were held within the GLASS Board of Directors. Consequently, the comments and information collected is representative of the countries that participate on the Board.

GLASS discussed the different points of view at Board meetings and included a summary through emails exchanged between its members. As a conclusion to this process, GLASS developed a final document based on the agreed responses and technical points of view of its members.

General comments

GLASS agrees with the proposed temporary exception to the accounting of deferred taxes arising from the implementation of the Pillar Two model rules and the targeted disclosure requirements. We agree that the proposed amendments are intended to provide timely relief for affected entities and avoid the development of interpretations in practice that are inconsistent with Section 29 of the *IFRS for SMEs* Standard; however, we consider it important to establish a deadline for such relief.

On the other hand, GLASS believes that, based on the calendar reported for the Third Edition of the *IFRS for SMEs* Standard, it is possible that an SME elects to early adopt this new version and

¹ The overall objective of the Group of Latin American Accounting Standards Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and ISSB. Therefore, GLASS aims to have a single regional voice before the IASB and ISSB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (President), Chile (Board), Colombia (Vice President), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).



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before this temporary exemption expires; therefore, we consider it appropriate that the IASB establish mechanisms so that, while this exemption is in force, it is applicable to entities that apply any of the versions of the *IFRS for SMEs* Standard.

Specific Comments

Attached you will find our responses to the specific questions included in the ED .

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Kind regards,

A handwritten signature in black ink, appearing to read 'Jose Luiz Ribeiro de Carvalho'.

Jose Luiz Ribeiro de Carvalho

President of the Group of Latin American Accounting Standard Setters (GLASS)



**GLASS Comment Letter on
Exposure Draft: International Tax Reform—Pillar Two Model Rules. Proposed amendments
to the *IFRS for SMEs* Standard**

Question 1—Temporary exception to accounting for deferred tax (proposed new paragraphs 29.3A to 29.42)

Section 29 *Income Tax* of the *IFRS for SMEs* Standard applies to income taxes arising from tax legislation enacted or substantially enacted to apply the Pillar Two model rules published by the OECD, including tax law that implements the 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 recognize 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 for 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.

GLASS RESPONSE

GLASS agrees with this proposal for a temporary exception to deferred tax accounting considering that (a) it is necessary to allow adequate time for this global tax legislation to be enacted by each jurisdiction and the rules to be better understood; (b) progress on further discussion of whether this global tax legislation is indeed within the scope of Section 29; (c) tax laws between countries are complex and the problems that might arise are not predictable at this stage. We agree that the complexity set forth in the Basis for Conclusions provides a basis for the proposal to use this temporary exception. Regarding the duration of the temporary relief, we recommend that an estimated expiration date be defined in the proposal.

Question 2—Disclosures (amended paragraph 29.38 and proposed new paragraph 29.43)

The Exposure Draft proposes:

- (a) to clarify that "other events" in the disclosure objective in paragraph 29.38 of the Standard include enacted or substantially enacted Pillar Two legislation; and
- (b) not to introduce new reporting requirements in periods where Pillar Two legislation is enacted or substantially enacted but not yet in effect.



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Paragraphs BC18–BC20 of the Basis for Conclusions explain the IASB's rationale for making 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.

GLASS RESPONSE

GLASS agrees with these proposed disclosures as they provide elements that allow evaluating the impacts of applying this rule.

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 that it has applied the exception (proposed new paragraph 29.42)—immediately upon issuance of these amendments and retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* in the *IFRS for SMEs* Standard;
- (b) The amended paragraph 35.10(h) immediately upon the issuance of these amendments; and
- (c) the disclosure requirement in proposed new paragraph 29.43 for annual reporting periods beginning on or after January 1, 2023.

Paragraphs BC23–BC25 of the Basis for Conclusions explain the IASB's rationales for making 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.

GLASS RESPONSE

GLASS agrees with the effective date and transition proposal.

ADDITIONAL COMMENT



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GLASS believes that, based on the calendar reported for the Third Edition of the *IFRS for SMEs* Standard, it is possible that an SME elects to early adopt this new version and before this temporary exemption expires; therefore, we consider it appropriate that the IASB establish mechanisms so that, while this exemption is in force, it is applicable to entities that apply any of the versions of the *IFRS for SMEs* Standard.

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