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Reference: Exposure Draft – International Tax Reform Pilar Two Model Rules – Proposed amendments to the IFRS for SMEs Standard

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Exposure Draft (ED) International Tax Reform Pilar Two Model Rules - Proposed amendments to the IFRS for SMEs Standard.

We are a standard-setting body engaged in studying, developing, and issuing accounting standards, interpretations, and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC Brasil (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Addressing the questions

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.

Response 1: We agree with the proposed amendments, however we believe this exception should have a period established for the application of this exception as it is a temporary one.

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.

Response 2 (a): We agree, as it makes clear that the definition of "other events" includes enacted or substantively enacted Pillar Two legislation.

Response 2 (b): We agree not to introduce requirements in periods in which Pillar Two legislation is enacted or substantively enacted because it maintains relevance to SMEs and simplicity. However, we understand that the application of such a standard in SMEs should be rare.

Additionally, we understand that it is pertinent to include illustrative examples of what would be desirable disclosure for item 29.38 in the case of amendments to the enactment of Pillar Two legislation.

Question 3—Effective date and transition (proposed new paragraph 29.3A)

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.

Response 3(a), (b) and (c): We agree with the proposed amendments.