

ED/2023/1 International Tax Reform - Pillar Two Model Rules

Feedback Statement – EFRAG Final Comment Letter

June 2023

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED/2023/1 *International Tax Reform - Pillar Two Model Rules* (‘the ED’) on 13 March 2023. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter (‘FCL’).

Background to the ED

The IASB published its [ED](#) in January 2023 to address the concerns raised by their stakeholders about the implications for income tax accounting resulting from jurisdictions implementing the OECD’s Pillar Two Model Rules (‘Pillar Two rules’) within a short period of time. In particular, the ED proposed a temporary and mandatory exception to the requirements in IAS 12 *Income Taxes* to recognise and disclose information about deferred taxes arising from the implementation of the Pillar Two rules. The ED also require entities to provide targeted disclosures for periods before and after the Pillar Two rules are in effect, in particular when the changes to tax legislation are substantively enacted but not yet effective.

The ED’s comment period ended on 10 March 2023. Further details are available on the IASB’s [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) (‘DCL’) on the proposals on 30 January 2023. In the draft comment letter, EFRAG welcomed the IASB’s efforts to expeditiously address the concerns of stakeholders about the implications for income tax accounting resulting from the implementation of Pillar Two rules.

EFRAG generally supported the IASB’s proposal to introduce the temporary exception to the requirements in IAS 12. However, EFRAG encouraged the IASB to clarify whether top-up tax based on the Pillar Two rules are in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity.

EFRAG supported the efforts of the IASB to define a disclosure approach that would provide information to users enabling them to assess an entity’s exposure to paying top-up tax that would not involve undue cost or effort. EFRAG appreciated that the IASB was trying to find a compromise,

considering the urgency of the project. However, it remained unclear whether this information was useful to users of financial statements.

EFRAG agreed with the effective date and the transition provisions included in the ED.

Outreach activities

Following the publication of its DCL, EFRAG organised the following outreach activities on the IASB's proposals:

- Closed consultation with the EFRAG FIWG on 30 January 2023;
- Closed consultation with the EFRAG IAWG on 1 February 2023;
- Closed consultation with the EFRAG User Panel on 3 February 2023;
- Joint EFRAG FR TEG and EFRAG CFSS meeting – public meeting with representatives of European standard setters on 6 February 2023;
- Closed consultation with representatives of pharmaceutical entities on 7 February 2023;
- Closed consultation with the Tax Working Group of the Accounting Standards Committee of Germany (ASCG) on 10 February 2023;
- Accounting Standards Advisory Forum (ASAF) meeting – public meeting on 10 February 2023;
- Closed consultation with BusinessEurope on 21 February 2023;
- Closed consultation with the Corporate Reporting Users' Forum (CRUF) on 28 February 2023;
- Closed meeting with representatives of large audit networks on 9 January and 27 February 2023.

Comments received from respondents

EFRAG has received and considered eighteen comment letters from respondents. These comment letters are available on EFRAG's [website](#). A list of respondents is provided in the Appendix.

The comment letters received came from national standard setters, business associations, user organisations, preparer organisations, listed companies and regulators.

EFRAG's final comment letter

EFRAG issued its [final comment letter](#) on 13 March 2023.

EFRAG welcomed the IASB's efforts to address the concerns of stakeholders about the implications for income tax accounting resulting from the implementation of Pillar Two rules.

EFRAG generally supported the IASB's proposal to introduce a temporary exception to the requirements in IAS 12 under which an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. However, EFRAG encouraged the IASB to clarify to which extent top-up taxes meet the definition of income taxes as defined in IAS 12 and whether top-up tax based on the Pillar Two rules are in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity.

Furthermore, EFRAG supported the IASB's efforts to define a disclosure approach that would provide information to the users to assess an entity's exposure to paying top-up tax that would not involve undue cost or effort. However, EFRAG proposed some improvements on the proposed targeted disclosures and encouraged the IASB to add a disclosure objective that describes the needs of users of financial statements. EFRAG was of the view that the IASB should apply a more principles-based and a less prescriptive

approach to disclose information to assess an entity's exposure to paying top-up taxes. EFRAG considered that the IASB should enable entities to provide their own quantitative assessment of their exposure to paying top-up tax prepared under Pillar Two rules. If such information was not available or was insufficient to meet the disclosure objective, an alternative quantitative estimate that satisfied the disclosure objective should be provided.

EFRAG also reminded the IASB of the urgent need of the proposed exception. Hence, perfecting the disclosure requirements or providing the required clarifications should not come at the price of delaying the finalisation of the amendments.

EFRAG agreed with the effective date and the transition provisions included in the ED.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

Temporary exception to the accounting for deferred taxes

Proposals in the ED

Paragraph 4A of the ED stated that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement Pillar Two Rules, including qualified domestic minimum top-up taxes. Furthermore, it was proposed – as an exception to the requirements in IAS 12 – that an entity neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Paragraph 88A of the ED also proposed that an entity discloses that it has applied the exception.

EFRAG’s tentative position

EFRAG agreed with the IASB’s proposal to provide a temporary exception to the requirements in IAS 12 as indicated in the ED.

EFRAG welcomed that the exception is mandatory, enhancing comparability and avoiding the risk of accounting inconsistencies. In addition, disclosing that the entity has to apply the exception provides transparency about the fact that the entity might be impacted by such a top-up tax. However, EFRAG noted that extending such a mandatory exception to the disclosure about deferred tax assets and liabilities related to Pillar Two income taxes, even in future periods when companies could be able to provide this information, could lead to a potential loss of some relevant information.

EFRAG’s final position

Based on the feedback received, EFRAG continued to support, overall, the IASB’s proposal to provide a temporary and mandatory exception to the requirements in IAS 12 under which an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, including any qualified domestic minimum top-up tax.

EFRAG also reiterated its position to support the absence of a sunset clause but to encourage the IASB to monitor the enactment process, to coordinate with other standard setters, to define a work plan and envisage a timeline to analyse the impacts of the Pillar Two rules and to assess whether an additional standard-setting activity is required.

EFRAG acknowledged that the disclosure requirement to disclose that the exception has been applied deviates from the general disclosure requirements included in other IFRS standards but provides transparency about the fact that an entity might be impacted by top-up tax. EFRAG suggested that the IASB should clarify the underlying rationale of asking for such a specific disclosure in this case.

EFRAG decided to address the concerns raised by its constituents related to the scoping of the ED. Therefore, EFRAG encouraged the IASB to clarify whether all taxes arising from Pillar Two model rules meet the definition of income taxes in IAS 12. In addition, EFRAG continued to encourage the IASB

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Furthermore, EFRAG supported the IASB's approach not to include a sunset clause for the application of the exception. Nevertheless, EFRAG encouraged the IASB to monitor the forthcoming enactment process, to coordinate with other standard setters, to already define a specific work plan and envisage a timeline to analyse the impacts of the Pillar Two rules and to assess whether an additional standard-setting activity is required.

Finally, EFRAG encouraged the IASB to clarify to which extent top-up taxes meet the definition of income taxes as defined in IAS 12 and whether top-up tax based on the Pillar Two model rules are in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity.

Respondents' comments

All respondents strongly agreed with the introduction of a temporary exception to the accounting for deferred taxes related to Pillar Two rules. They also agreed with the IASB's proposal to make it mandatory for all entities. However, a few respondents noted that an entity should be allowed to disclose information on deferred taxes arising from Pillar Two rules when the information will be relevant and reliable.

Furthermore, all respondents agreed with the IASB's proposal to not provide for a sunset clause for the termination of the exception. However, some respondents encouraged the IASB to:

- add a specific project (e.g., an activity of review) in its work plan to assess either removing the exception or making it permanent; and

EFRAG's response to respondents' comments

to clarify whether Pillar Two income taxes are within the scope of IAS 12 in situations outside the context of consolidated financial statements.

EFRAG further emphasised that the proposed changes or clarifications should not lead to a delay in finalising the proposed amendments considering that it would take additional time to integrate the proposed amendments into local law in various jurisdictions (including the European Union).

EFRAG acknowledged, in its comment letter, the concern raised by a few constituents that extending such a mandatory exception to the disclosures about deferred taxes could lead to a potential loss of some relevant information in the future. However, in EFRAG's view ongoing monitoring by the IASB so that the exception is withdrawn or made permanent at the appropriate moment, as EFRAG is proposing in its comment letter, should address this concern.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

- monitor and analyse future developments related to the implementation of the Pillar Two model rules and other standard-setters' activity, including the FASB.

Many respondents agreed with EFRAG's suggestion encouraging the IASB to clarify whether and how paragraph 4A of the ED is applicable in situations outside the context of consolidated financial statements of the ultimate parent entity. In addition, a few respondents suggested that the IASB should clarify better (at least in the Basis for Conclusions) how the exception and disclosure requirements would work in practice based on the content of paragraph 4A of the ED.

Some respondents also expressed some concerns about the usefulness of the IASB's proposal in paragraph 88A of the ED.

Lastly, many respondents highlighted that moving forward with the exception as proposed in the ED is more important than explicitly clarifying every single application question which might still arise in practice.

EFRAG's response to respondents' comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Disclosure

Proposals in the ED

In periods before Pillar Two legislation is in effect, paragraph 88C(a)-(c) of the ED proposed to require an entity to disclose information about jurisdictions where Pillar Two legislation had been enacted or substantively enacted (88C(a)) and some aggregated financial figures for those jurisdictions having an effective tax rate below 15% calculated in accordance with IAS 12 requirements (88C(b)). In addition, to the extent that an entity had made an assessment to comply with Pillar two legislation, it should indicate whether there was any change of jurisdictions having a low-income tax (i.e., if the picture of the jurisdictions having an effective tax rate below 15% was different) (88C(c)).

In periods when Pillar Two legislation is in effect, paragraph 88B of the ED proposed to require an entity to disclose separately the current tax expense related to Pillar Two income taxes.

EFRAG’s tentative position

For periods when the law is enacted or substantively enacted, but not yet in effect, EFRAG supported the efforts of the IASB to define a disclosure approach that would provide information to the users to assess an entity’s exposure to paying top-up tax that would not involve undue cost or effort. However, EFRAG questioned whether the information included in paragraph 88C(b) of the ED would be useful for users of financial statements.

EFRAG also encouraged the IASB to clarify some aspects of the disclosure requirements included in paragraph 88C(a)-(c) of the ED.

EFRAG’s response to respondents’ comments

EFRAG’s final position

Considering the feedback received, for periods when the law is enacted or substantively enacted, but not yet in effect, EFRAG proposed a more principles-based and less prescriptive approach:

- To incorporate a specific disclosure objective that describe the needs of users of financial statements to assess an entity’s exposure to paying top-up tax.
- To allow that entities provide their own quantitative assessment based on Pillar Two rules - if available - instead of information based on IAS 12.
- To require that those entities that do not have information based on Pillar Two requirements at a sufficiently reliable level to meet the disclosure objective, should provide an alternative quantitative estimate that satisfies the disclosure objective (the proposed IAS 12 prescriptive requirements were considered being a reasonable alternative).

For periods when the law is in effect, EFRAG reiterated its support to the proposed disclosure requirements.

EFRAG was of the view that introducing a disclosure objective would enable entities to provide entity-specific information and might help in applying the materiality concept. EFRAG has heard during its consultation period that prescriptive information prepared in accordance with IAS 12 requirements might not be useful for users and could result in misleading information.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

For periods when the law is in effect, EFRAG agreed with the proposed disclosure requirements.

Respondents’ comments

For periods when the law is enacted or substantively enacted but not yet in effect, respondents generally supported a disclosure approach that would provide information to the users to assess an entity’s exposure to paying top-up tax that would not involve undue cost or effort.

Despite this general support, a majority of respondents (preparers and some national standard setters) had doubts on all or any of the proposed disclosure requirements. Many of the concerns related to the requirement to provide aggregated financial figures for those jurisdictions having an effective tax rate below 15% calculated in accordance with IAS 12. Conversely, users and a regulator supported the proposed disclosure requirements.

Respondents raised doubts about the usefulness of these disclosures because the tax (rate) calculated applying IAS 12 was not representative of the effective tax (rate) that an entity would determine applying the Pillar Two rules. They noted that the proposed disclosures could even be misleading. They also indicated that the proposals would require entities that do not report information by jurisdictions to set up systems and create new processes to collect, prepare and audit information at a country level.

For periods when the law is in effect, there were mixed views from the respondents. Many respondents supported the proposed targeted disclosure while some respondents had doubts about the decision-usefulness of the information or even did not support it.

EFRAG’s response to respondents’ comments

Therefore, in EFRAG’s view, having entity-specific (and thus, more relevant) information outweighs having prescriptive information prepared in accordance with IAS 12 requirements, even if the latter is more comparable across entities.

During its consultation, EFRAG also noticed that some entities would be ready to have their own assessment of their exposure to paying top-up tax based on Pillar Two requirements. EFRAG considered that such an assessment would provide relevant information to assess the impact even though it would not fully satisfy the request of users of having a uniform starting point based on IAS 12 information. In EFRAG’s view, requesting entities to provide IAS 12 prescriptive information, on top of the assessment of the impact based on Pillar Two requirements, might result in undue cost or effort.

If the proposed exception had not been in place, an entity might have recognised deferred taxes that could help users evaluate future events. Thus, in EFRAG’s view, an entity needs to provide information to the users to assess an entity’s exposure to paying top-up tax and compensate for the potential loss of information on the introduction of the exception. Hence, EFRAG requested that an entity should provide an alternative quantitative estimate that satisfies the disclosure objective if an entity does not have the Pillar Two information available at a sufficiently reliable level.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Effective date and transition

Proposals in the ED

The IASB proposed that an entity should apply:

- the exception and the requirement to disclose that the entity has applied the exception immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- the disclosure requirements in paragraphs 88B–88C of the ED for annual reporting periods beginning on or after 1 January 2023.

EFRAG’s tentative position

EFRAG agreed with the ED proposals.

Furthermore, given the absence of an end date for the exception introduced by these amendments, EFRAG recommended that the IASB schedules in its workplan, an activity of review, so that the exception may be withdrawn or made permanent at the appropriate moment.

Respondents’ comments

Almost all respondents agreed with the IASB’s proposal in the ED. Some respondents also agreed with the suggestion to encourage the IASB to schedule the aforementioned activity of review in its workplan.

EFRAG’s response to respondents’ comments

EFRAG’s final position

EFRAG considered the views of respondents in reiterating the position that was expressed in the EFRAG DCL.

In addition, based on the feedback received during the outreaches, EFRAG decided to encourage the IASB to include, in the main body of the Standard, the clarification included in paragraph BC27 of the ED highlighting that the Proposed Amendments, once effective, will be applicable to any financial statements not yet authorised for issue at that date. Such an approach would be consistent with that already applied by the IASB (e.g., paragraph C1C of the amendments to IFRS 16 ‘Covid-19-Related Rent Concessions beyond 30 June 2021’ issued in March 2021).

Appendix: List of respondents

Table 1: List of respondents

Name of respondent¹	Country / Geography	Type / Category
German Insurance Association (GDV)	Germany	Preparer/ Preparer organisation
Fédération Bancaire Française (FBF)	France	Preparer/ Preparer organisation
Accounting Standards Committee of Germany (ASCG)	Germany	Standard Setter
Comissão de Normalização Contabilística (CNC)	Portugal	Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	Standard Setter
BusinessEurope	Europe	Preparer/ Preparer organisation
European Securities and Markets Authority (ESMA)	Europe	Regulator
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	Standard Setter
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	Standard Setter
European Federation of Financial Analysts Societies (EFFAS)	Europe	Users/ User organisation
Dutch Accounting Standards Board (DASB)	Netherlands	Standard Setter
German Banking Industry Committee (GBIC)	Germany	Preparer/ Preparer organisation
Siemens AG	Germany	Preparer/ Preparer organisation
Norwegian Accounting Standards Board (NASB)	Norway	Standard Setter
Allianz SE	Germany	Preparer/ Preparer organisation
Swedish Enterprise Accounting Group (SEAG)	Sweden	Standard Setter
Autorité des Normes Comptables (ANC)	France	Standard Setter
SAP SE	Germany	Preparer/ Preparer organisation

¹ Respondents whose comment letters were considered by the EFRAG FRB before finalisation of the comment letter.