Summary and analysis of the comment letters received

1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 01-04.

Structure of the paper

2 This comment letter analysis contains:

(a) Background;

(b) Summary of respondents;

(c) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter; and

(d) Appendix 2 – list of respondents.

Background

3 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 *International Tax Reform—Pillar Two Model Rules* (Proposed Amendments to IAS 12) ("the ED") with a comment period ending 10 March 2023.

4 EFRAG published its draft comment letter ('DCL') on the ED on 30 January 2023. In its DCL, EFRAG supported the IASB's proposal to introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities arising from the OECD's Pillar Two Model Rules. However, EFRAG outlined that it would engage with its constituents during the outreach of the ED to ascertain the usefulness of the proposed targeted disclosures for users and to assess the feasibility (including costs) for preparers. EFRAG DCL's comment period ended on 27 February 2023.

Summary of respondents

5 At the time of writing, 13 comment letters have been received in final versions from a wide range of constituents. In addition, EFRAG has received 4 additional letters in draft version which have been considered for the present summary of feedback but are not published to EFRAG's website.

6 All final letters received have been uploaded to EFRAG's Website (here).

7 Appendix 2 provides a list of all respondents who submitted final comment letters.

8 The summarised feedback gathered from respondents is grouped to the extent possible to reflect the views of several participants at a time. The following table provides an indication of the range of responses relating to the terms used throughout the summary:

Term	No of respondents	% Range
Almost all	16 - 17	91 – 100
Most	13 – 15	76 – 90
Majority	9 - 12	51 – 75
Many, significant	6 - 8	31 - 50
Some, others	4 - 5	21 - 30
A few	2 - 3	7 – 20
One	1	6

9 The EFRAG Secretariat will provide a verbal presentation on any additional final comment letters that would be received by the time the EFRAG FR TEG-FRB joint meeting is held.

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter

Question 1

> IAS 12 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 an exception to the requirements in IAS 12, an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.
>
> The IASB also proposes that an entity disclose that it has applied the exception.
>
> Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB's rationale for this proposal.
>
> Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.
>
> Additional questions to Constituents included in EFRAG's DCL:
>
> Do you support the IASB's proposal to introduce a temporary mandatory exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules, including the qualified domestic minimum top-up tax?
>
> Do you support the IASB's proposal to extend a temporary mandatory exception also to the disclosures about potential deferred taxes arising from the implementation of the Pillar Two model rules?
>
> Do you think it is necessary to encourage 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 (e.g., subsidiary's separate financial statements level or sub-group consolidated financial statements level)?

Proposals in the ED

1 The IASB proposes to introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. This ED does not affect the accounting for current taxes arising from implemented OECD Pillar Two rules.

2 The IASB also proposes that the temporary exception will be mandatory. This would result in greater comparability and eliminate the risk of entities developing accounting policies that are inconsistent with IAS 12.

3 The IASB also proposes that an entity disclose that it has applied the exception.

4 In addition, the IASB concluded that entities need time to determine how to apply the principles and requirements in IAS 12 to account for deferred taxes related to top-up tax and that they need time to consider whether, for example, any action is needed to support the consistent application of IAS 12. From their point of view it is not possible to determine - at present - how much time such work will require. Consequently, the IASB proposes not to specify how long the temporary exception would be in place.

EFRAG's tentative position

> EFRAG agrees with the IASB's proposal to provide a mandatory 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.

As explained in paragraph BC7 of the ED, jurisdictions may introduce a qualified domestic top-up tax. Qualified domestic top-up tax would also be computed based on the Pillar Two model rules but would be paid in the jurisdiction in which the profit arises rather than in the (ultimate) parent entity´s jurisdiction. EFRAG welcomes the IASB's proposal to apply the exception to the accounting for deferred taxes to qualified domestic top-up tax. Such domestic top-up tax is subject to the same concerns as potential deferred tax that arises from the other Pillar Two rules.

Based on the preliminary feedback received, this temporary exception would:

(a) provide relief to entities from applying the complex calculation as required by the new tax law, including that related to the qualified domestic top-up tax, as they do not have to consider future tax effects;

(b) avoid diversity in practice in applying IAS 12 requirements without affecting comparability between entities' financial statements, both before and after the top-up tax applies;

(c) provide more time for entities to better understand the implications of new local tax laws leading to more reliable and useful financial information; and

(d) allow to better understand users' information needs related to top-up tax.

EFRAG welcomes that the exception is mandatory. Making this exception mandatory enhances comparability and avoids the risk of accounting inconsistencies as referred to in paragraph BC16(b) of the ED. In addition, disclosing that the entity has to apply the exception provides transparency about the fact that the entity might be impacted by top-up tax.

However, EFRAG notes that extending such a mandatory exception to the disclosure about deferred tax assets and liabilities related to Pillar Two income taxes could lead, in future periods, to a potential loss of some relevant information. The currently proposed mandatory exception can be understood that even in future periods when companies are able to provide this information, it will not be allowed to provide it in the notes to the financial statements.

Furthermore, EFRAG supports the IASB's approach not to include a sunset clause for the application of the exception. It would grant additional time to impacted entities and tax specialists to assess the effects of the new tax law and, consequently, to provide more useful and accurate financial information. In addition, taking into account that the OECD Pillar Two rules might be implemented at a different point in time in the various jurisdictions, a uniform timeline would not be appropriate. In addition, it gives time to the IASB to engage with stakeholders and to carefully consider any need for standard-setting.

Nevertheless, EFRAG encourages 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.

EFRAG also highlights that the timing at which the amendments will be published by the IASB is critical. Indeed, given the timing at which some jurisdictions are expected to enact or substantively enact the Pillar Two model rules, it could impact interim reporting and annual reporting periods ending before 31 December 2023.

Lastly, EFRAG acknowledges that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules. However, it is unclear whether Pillar Two income taxes are in the scope of IAS 12 in situations outside the context of consolidated financial statements. For example, in separate financial statements where the standalone entity is liable to pay the top up tax, but the tax was triggered by another entity of the group. Similar questions may arise in consolidated financial statements at sub-group level. Therefore, we encourage the IASB to clarify which standard would apply in such situations (or to explore alternative accounting treatments), providing that the issuance of these urgent amendments is not delayed.

Summary of constituents' comments

<u>Temporary and mandatory exception</u>

10 All respondents strongly agreed with the introduction of a temporary exception to the accounting for deferred taxes related to Pillar Two rules, including any qualified domestic minimum top-up tax. In addition, they also agreed with the IASB's proposal making it mandatory for all entities. Indeed, they acknowledged the underlying reasons explained in the Basis for Conclusions; in particular, they agreed that this approach should:

(a) Provide relief to the entities with the complexity of the new calculation and the general uncertainty around the new rules;

(b) Reduce the risk of diversity in practice and inconsistent interpretations of IAS 12 requirements;

(c) Ensure comparability of financial information between entities; and

(d) Provide more time for the IASB to perform in-depth research of the accounting implications of the Pillar Two Model Rules.

11 Some respondents explicitly agreed with the IASB's proposal to extend such a temporary and mandatory exception also to the disclosure about potential deferred taxes arising from the implementation of Pillar Two rules based on the same rationale applies for the recognition and measurement of such deferred tax accounting.

12 Conversely, two standard-setters expressed different views. Both asked to allow the disclosures in the notes to the financial statements at the time when reliable disclosures would be possible. One expressed the following reasons:

(a) A mandatory exception to disclosures has not precedents in IFRS Standards;

(b) It should be allowed to the entities to disclose information when it is relevant and reliable (I.e., changing the mandatory exception to the disclosure from "shall not disclose" to "need to disclose" in paragraph 4A).

13 The User organisation responding, highlighted that the mandatory element should facilitate comparability and avoid disclosing misleading information.

14 Furthermore, all respondents agreed with the IASB's proposal to not provide for a sunset clause for the application of such an exception supporting the reasons stated in the Basis for Conclusions (BC17). However, some respondents encouraged the IASB to:

(a) Add a specific project (e.g., an activity of review) in its work plan to assess either removing the exception or making it permanent, also taking into account that when it applied over time such an exception might result in entities that were able to provide more specific information not providing it;

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

(c) engage with stakeholders on what actions are needed to support the consistent application of IAS 12, including providing any necessary guidance or illustrative examples as part of future standard-setting activities;

(d) Provide for the exception for a specified minimum period or, alternatively, until a specific date set as the earliest date on which the IASB will reconsider it.

<u>Scoping</u>

15 Few respondents suggested the IASB to better clarify (at least in the Basis for Conclusions) the extent at which the exception and disclosure requirements would

be applied based on paragraph 4A of the ED. In particular, these respondents noted as different interpretations could arise with reference to the following matters:

(a) It is not clear whether paragraph 4A applies to any top-up taxes arising from the Pillar Two model rules without assessing whether any such taxes meet the definition in IAS 12 of income taxes and, consequently, how to apply the current tax disclosure requirements.

(b) It is not clear whether paragraph 4A applies to the effects of the Pillar Two legislation on deferred tax assets and liabilities recognised applying domestic tax rules (e.g., "indirect effect" on Pillar Two rules)

16 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. However, some 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. Therefore, they suggested addressing such an issue in a wider scope (as similar questions related to other income tax matters already exist), separate in a specific project.

<u>Disclosing of the application of such an exception (paragraph 88A of the ED)</u>

17 Some respondents expressed some concerns about the usefulness of the IASB's proposal in paragraph 88A of the ED, based on which an entity shall disclose that it has applied the exception. In particular, they highlighted that:

(a) It could be redundant and not necessary considering the general statement of compliance to IFRS Standards already required by paragraph 16 of IAS 1 - Presentation of Financial Statements; indeed, entities are generally not required to disclose other scoping exceptions or exclusions when they are not optional;

(b) It would be more helpful if entities were required to state explicitly whether they expect to be affected by Pillar Two legislation. This is because the application of the exception will be mandatory, but not all entities and groups will be affected because of their size or location of their operations;

(c) Useful information for users and investors should already be provided for in accordance with paragraph 28 of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(d) disclosing the current tax expense(income) related to Pillar Two income taxes would already provide users of financial statements with information that Pillar Two legislation is relevant for an entity and that the entity has consequently applied the exception.

18 Conversely, few respondents explicitly agreed with disclosing the application of such an exception.

19 One respondent proposed to disclose the non-application of Pillar Two rules for firms with consolidated revenues over 750 M€, when applicable.

Question 2

The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity disclose for the current period only: (a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.

(b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.

(c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:

(i) identified in applying the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or

(ii) not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

<u>Additional questions to Constituents included in EFRAG's DCL:</u>

Do you consider that the disclosure requirements included in paragraph 88C (b) of the ED will result in providing users of financial statements with insights into an entity's potential exposure to paying top-up tax? Do you consider that the benefit of providing this disclosure requirement would outweigh the cost of preparing this information? Is there any other indication that could provide users with better insights into an entity's potential exposure to paying top-up tax but that would not involve undue cost or effort?

Proposals in the ED

20 In introducing new disclosure requirements, the IASB considered the needs of users of financial statements when Pillar Two legislation is enacted or substantively enacted, but not yet in effect and when it is in effect.

21 In periods before Pillar Two legislation is in effect, the IASB sought to identify what information would provide users of financial statements with insights into an entity's potential exposure to paying top-up tax but that would not involve undue cost or effort. Considering this balance of costs and benefits, the IASB proposed to require an entity to disclose, for the current period only:

(a) information about Pillar Two legislation enacted or substantively enacted in jurisdictions in which the entity operates;

(b) the jurisdictions in which the entity's average effective tax rate for the current period is below 15% (calculated in accordance with IAS 12); and

(c) the tax expense (income) and accounting profit for these jurisdictions in aggregate (the aggregation of all jurisdictions), as well as the resulting weighted average effective tax rate.

22 The IASB also proposes to require an entity to disclose whether assessments the entity has made in preparing to comply with Pillar Two legislation. According to these assessments, an entity would indicate whether there are additional (or fewer) jurisdictions in which the entity might be exposed to paying Pillar Two income taxes compared to those with an average effective tax rate of less than 15% based on the

requirements in IAS 12. This information would not involve undue cost or effort because it would be required only if an entity has made such assessments.

23 In periods when Pillar Two legislation is in effect, the IASB proposes to require an entity to disclose separately the current tax expense related to Pillar Two income taxes.

EFRAG's tentative position

Disclosures before legislation is in effect

24 EFRAG appreciated that the IASB was trying to find a compromise, considering the urgency of the project. EFRAG would seek views from its constituents on the usefulness of the proposed disclosures, as due to the nature of the information required, the necessary data may not be available nor easily reconcilable with the internal records.

25 EFRAG encouraged the IASB to clarify in paragraph 88C (a) of the ED what type of information entities should disclose when Pillar Two model rules are enacted or substantively enacted in jurisdictions in which an entity operates. The proposal raises the question whether this should be understood that entities should provide information on all the jurisdictions where an entity operates and Pillar Two model rules are enacted or substantively enacted. At that stage, we had some doubts that this is decision-useful information for the users.

26 EFRAG also encouraged the IASB to clarify the disclosure requirement included in paragraph 88C (b) of the ED. In EFRAG's view, it was unclear what the IASB meant by the accounting profit of a jurisdiction.

27 EFRAG considered it useful to provide users of financial statements with information that tries to provide insights into an entity´s potential exposure to paying top-up as long as the benefit of providing such information outweighs its costs.

28 EFRAG had some doubts whether the information included in paragraph 88C (b) of the ED is useful for users of financial statements. EFRAG would assess the usefulness of the disclosure requirement included in paragraph 88C (b) of the ED extensively with its constituents together with the expected costs of preparing this information during its outreach activities on the ED.

29 EFRAG considered the disclosure included in paragraph 88C (c) of the ED to be useful. However, the way in which the ED is drafted may trigger that some entities may fulfil this disclosure requirement by saying that they have made an assessment that leads to the situations included in paragraphs 88C (c) (I) or (ii) of the ED but without providing further details.

30 Additionally, EFRAG encouraged the IASB to state explicitly in paragraph 88C of the ED that it refers to any jurisdiction in which the entity operates. Even though this was the ED's intention as reflected in paragraph 88C (a) of the ED, we were of the view that this should also be emphasised in paragraph 88C of the ED to avoid any confusion.

31 Lastly, EFRAG indicated that under Pillar Two rules, there might be a difference between the entity liable to pay the top-up tax and the entity that triggers the top-up tax. EFRAG had reservations on whether the disclosure requirements proposed in paragraph 88C (b) in the ED are fit for purpose for separate financial statements (or the financial statements of sub-consolidated subsidiaries).

Disclosures when legislation is in effect

32 EFRAG agreed with the disclosure of an entity´s current tax expense (income) related to Pillar Two income taxes as it would enable users of financial statements to understand the magnitude relative to an entity's overall tax expense and it will not be costly. However, EFRAG encouraged the IASB to clarify in the Basis for Conclusions the reason why users of financial statements are keener to understand the magnitude of Pillar Two income taxes over other types of income taxes.

Summary of constituents' comments

Disclosures before legislation is in effect

General

33 A majority of respondents supported the IASB's efforts to define an approach that would provide information to the users to assess an entity's exposure to paying top-up tax that would not involve undue costs or effort. One of them pointed out that despite the fact that the ED lacks evidence of pressing need from users to have this information and that IAS 12 does not require entities to provide information about an entity's exposure to tax legislation that is not yet in effect, they see merits in the ED requiring entities to disclose this information.

34 Conversely, two respondents considered that it is not necessary for the IASB to require detailed disclosure requirements on Pillar Two taxes. They indicated that IAS 1 already require entities to communicate on any significant event that might be material. In addition, one of them noted that the information required and the objective pursued are not directly related to the exemption granted for deferred taxes.

35 Despite the general support indicated in paragraph 33above, there is a variety of views on whether the proposed targeted disclosures would result in a reasonable balance between costs and benefits. Some respondents fully supported the proposed targeted disclosures, one respondent was cautiously supportive of the disclosures (i.e., the support seemed to be based on a compromise to avoid any delay in the introduction of the exception) while a majority of respondents had (significant) doubts on all or any of the proposed targeted disclosure requirements or even did not support all or any of them (see the specific views on each of the proposed disclosure requirements below). However, a few of them indicated that, despite having doubts and proposing alternative approaches, timely publications of the amendments should take precedence over perfecting the disclosure requirements.

36 Respondents provided the following general reasons (reasons for specific disclosure requirements are included below under the corresponding caption) not to support the targeted disclosure requirements as proposed:

(a) There are doubts on whether the targeted disclosure requirements enable users to understand the implications of Pillar Two legislation;

(b) The disclosures might be commercially sensitive. They are more interesting for tax authorities than for users;

(c) The proposed disclosures are similar to country-by-country reporting being the information too detailed for general purpose financial statements.

(d) The proposed disclosures create significant incremental operational efforts for preparers

37 Few respondents provided some alternative approaches:

(a) to require principle-based disclosures which allow entities to provide qualitative and/or quantitative information. Entities could provide the status of their assessment and based on this, known or reasonably estimable information relevant to assessing the impact of Pillar Two legislation in the first period of application. If they cannot estimate the impact, they should state it;

(b) the IASB should restrict itself to encouraging companies to be transparent about work in progress and only provide information about expected impacts where reliable and probable estimates exist;

(c) to use the middle ground approach as envisaged in the disclosure initiative project. The IASB should require disclosures that are best suited to provide users of financial statements with insights into an entity's exposure to paying top-up tax but do not impose undue cost or effort in preparing them.

38 One organisation of users pointed out that entities should avoid making general statements about the impact of the rule without providing details. If there is not a solid base for the assessment of the potential impact, they would prefer that entities do not provide an assessment. Confusing information that could derive into a misleading conclusion should be avoided. They indicated that users would not rely on subjective information and disclosures that differ from IAS 12.

39 A respondent who supported the disclosures suggested that the IASB should incorporate in the basis for conclusions insights into how entities should assess materiality for the purpose of disclosing the required information. In their view, an entity should provide the information required in paragraph 88C(a) only for relevant jurisdictions and only retain those jurisdictions for the purpose of the computation required in paragraph 88C(b).

40 A respondent also suggested that the IASB should clarify whether the proposed disclosures are fit for purpose in situations other than the consolidated financial statements of the ultimate parent (i.e., separate financial statements or consolidated financial statements at a sub-group level)

41 Two respondents who had doubts on the proposed targeted disclosure requirements made the following suggestions in case that the IASB decided to move forward with the proposed disclosures:

(a) The IASB should undertake a cost-benefit assessment and explain why the disclosures are useful;

(b) There are some interpretation doubts in the figures to be provided under 88C(b) that should be clarified:

  (i) does an entity have to determine this data on a subgroup level per country?;

  (ii) how should entities deal with consolidation adjustments?; and

  (iii) How should entities deal with intercompany transactions between a jurisdiction and the rest of the group?;

(c) Entities should have the option to use either current year data or plan data;

(d) In case that an entity has already conducted a Pillar Two assessment, entities should be able to publish information based on that assessment rather than conducting additional calculations based on IAS 12;

(e) The IASB should clarify in paragraph 88C whether the disclosures have to be made until the reporting parent company or until the last subsidiary in the group has implemented Pillar Two regulations;

(f) Information about the legislation enacted or substantively enacted (paragraph 88C(a)) shall be disclosed as of the end of the reporting period; and

(g) Given the particular issues that exist in the context of sub-groups and individual entities, the IASB should consider scope restrictions such as those that exist in IFRS 8 Operating Segments, which limit the application of disclosure requirements to entities with traded debt or equity instruments. This would reduce the cost of the proposals.

<u>Targeted disclosure requirement 88C (a)</u>

42 Many respondents supported the proposed targeted disclosure requirement while some respondents suggested some changes to it and a few respondents did not support it.

43 A few respondents indicated that where the ultimate parent´s jurisdiction had enacted the Pillar Two legislation, disclosure requirements should be restricted to information on the ultimate parent entity´s jurisdiction and to information on jurisdictions applying qualified domestic minimum top-up tax. They argued that, according to the top-down approach of the Pillar Two rules, detailed information on other jurisdictions in which the reporting entity operates would provide a limited added value for users. In addition, providing information about all legislations would cause undue cost or effort for entities operating in multiple jurisdictions and lead to an information overload. Another respondent noted that the disclosures should be limited to material jurisdictions.

44 A few respondents that did not support the disclosure requirement as proposed outlined the following reasons:

(a) An analysis of the implementation status in each individual country would result in undue cost or effort;

(b) Users can obtain this information through different channels. Information about Pillar Two legislation is publicly available and information about countries in which an entity operates is usually presented as an integral part of the financial reporting.

<u>Targeted disclosure requirement 88C (b)</u>

45 Some respondents supported the proposed targeted disclosure requirement, while a majority of respondents had (significant) doubts or even did not support it. Some respondents proposed some alternative approaches (see below).

46 Respondents provided the following reasons for not supporting the disclosure requirement as drafted:

(a) The disclosure requirement raises doubts about its usefulness and could even be misleading:

(i) Effective tax rate calculated applying IAS 12 is not representative of the effective tax rate that an entity would determine applying the Pillar Two rules.

(ii) the accounting profit of a jurisdiction might contain some information such as dividend incomes that must be eliminated of the GloBE income

(b) Entities will be required de facto to provide supplemental information to ensure that users do not get misleading information. This will lead to additional audit and operational efforts.

(c) The effective tax rates and the company structure before and after the effective date of the Pillar Two legislation could be significantly different.

(d) The proposed required information is as of today not available for many entities and would have to be calculated separately, resulting in an additional administrative burden for such preparers. Entities may require implementing additional reporting procedures, especially if there are several entities on each jurisdiction and their reporting package is not organised by jurisdictions (i.e., it is organised by businesses instead).

(e) Providing disclosures calculated on different bases (the Pillar Two rules and IAS 12) in 2023 and 2024 will affect the comparability of the two financial reporting years.

(f) There might be operational issues with branches of different jurisdictions as there are integrated in a legal subsidiary that may belong to another jurisdiction.

47 Similar as in the outreach events one respondent requested to clarify the requirement. They wonder whether this means that the entity would disclose the names of the individual jurisdictions in which the effective tax rate is below 15%, and then provide a total accounting profit and tax expense for all of these taken as a group, along with the weighted average tax rate for this group.

48 Some respondents proposed the following alternative approaches:

(a) To disclose those jurisdictions with the nominal income tax rate of less than 15% instead of all requirements included in paragraph 88C(b) of the ED. It would be a less burdensome approach and at the same time more decision useful information for users;

(b) To provide a qualitative disclosure instead of the requirements included in paragraph 88C(b);

(c) To enable entities to disclose Pillar Two information if it is available. From a cost-benefit perspective, it seems more appropriate for those entities to provide disclosures based on data that they collect anyway while preparing to comply with the Pillar Two legislation, provided that these data are reliable. It should provide users with better information. Entities that are not advanced should be able to state the nominal tax rate of a jurisdiction.

49 A respondent that supported the disclosures given the urgency of the proposed exception and to avoid any delay indicated that they had not identified alternative disclosures that would meet a better cost-benefit balance. Nonetheless, they suggested that the IASB should:

(a) Acknowledge in the basis for conclusions the limited value of the proposed disclosures;

(b) Require entities to disclose explanatory information in relation to the status of the assessments;

(c) Clarify what the IASB means by ‘in aggregate’ (i.e., to provide information in aggregate for each jurisdiction or for all jurisdictions).

<u>Targeted disclosure requirement 88C (c)</u>

50 Many respondents supported the proposed targeted disclosure requirement, while many other respondents had (significant) doubts or even did not support it.

51 A respondent who did not support the disclosure requirement noted that an entity must make 2 different calculations to comply with the requirements of 88 C b) and 88 C c) to provide the required information. There might also be an expectation gap between this disclosure requirement and the fact that entities might not be able to collect the necessary information and make an assessment until later. In addition, the requirement does not specify any time horizon for this assessment.

52 Another respondent indicated that the technical requirements to assess the global tax calculation are not in place and the country-by-country reporting should suffice.

53 Similarly to EFRAG, a few respondents noted that a literal reading of the requirement is that an entity must disclose if it has assessed the potential impact on jurisdictions without providing any supporting information or calculations. In their view, this should be clarified, if this disclosure is finally adopted.

Disclosures after legislation is in effect

54 There are mixed views on whether the proposed targeted disclosures after Pillar Two legislation is in effect would result in useful information for users of financial statements. 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.

55 A respondent who did not support the disclosure requirement indicated that entities may already report this information under paragraphs 81c) and 81d) of IAS 12. They also noted that there are other reports more suitable for tax transparency like the country-by-country report. Another who did not support the disclosure requirement highlighted a timing issue. The complex process to determine top-up could only start, when the accounting period is substantially closed.

Question 3

> The IASB proposes that an entity apply:
>
> (a) the exception—and the requirement to disclose that the entity has applied the exception—immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
>
> (b) the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.
>
> Paragraphs BC27–BC28 of the Basis for Conclusions explain the IASB's rationale for this proposal.
>
> Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.
>
> <u>Additional questions to Constituents included in EFRAG's DCL:</u>
>
> Are there any additional questions or issues that should be taken into consideration by EFRAG in its Final Comment Letter?

Proposals in the ED

5 The IASB concluded that, for the temporary exception to be effective, it would need to be available to entities immediately upon the issue of the amendments. The IASB decided to propose retrospective application of the temporary exception because such application would result in entities applying the exception from the date Pillar Two legislation is enacted or substantively enacted, even if that date is before the date on which the IASB issues the final amendments.

6 The IASB proposes to require an entity to apply 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 agrees with the IASB's proposal that entities should apply:
>
> (a) the exception and the requirement to disclose that the entity has applied the exception immediately upon issue of the amendments and retrospectively in accordance with IAS 8; and
>
> (b) the disclosure requirements in paragraphs 88B–88C of the ED for annual reporting periods beginning on or after 1 January 2023.
>
> Such an approach would not lead to significant additional costs for preparers and would allow entities to apply the mentioned exception retrospectively starting from the date Pillar Two legislation is enacted or substantively enacted (even if that date is before the date the expected amendments are approved).
>
> Finally, given the absence of an end date for the exception introduced by these amendments, EFRAG recommends that the IASB schedules in its workplan, from now, an activity of review, so that the exception may be terminated at the appropriate moment.

Summary of constituents' comments

<u>Effective date and transition</u>

56 Almost all respondents agreed with the IASB's proposal in the ED. Indeed, this would allow all jurisdictions to apply the exception irrespective of the enactment of local tax laws, which are expected at different times around the world and across EU.

57 Some respondents also explicitly agreed with the EFRAG's suggestion to encourage the IASB scheduling in its workplan, from now, an activity of review, so that the exception may be terminated at the appropriate moment. One respondent encouraged EFRAG to recommend to the IASB to assess also whether the exception should be retained as permanent based on a cost-benefit analysis.

58 One respondent disagreed with the retrospective application of the proposed amendments as stated in paragraph 98M(a) of the ED. In particular, this respondent noted as Pillar Two model is not an accounting change but a new tax that is being introduced with an application for business years beginning after 31 December 2023 (Council Directive (EU) 2022/2523, Art. 56). Accordingly, there is no room for a retrospective application for reporting periods ending prior to 1 January 2024. Beyond that, it is practically impossible to disclose precise information on the globe tax already in the financial statements as of 31 December 2023.

<u>Other comments</u>

59 Some respondents highlighted the urgency to have such an exception and, therefore, the need to publish (and then to endorse) the amendments as soon as possible taking into account the potential impact on the interim reporting or annual financial statements ending before 31 December 2023.

60 Some respondents, in light of the recent FASB's decision related to this topic, highlighted the importance of the convergence between US GAAP and IFRS Standards and encouraged the IASB to coordinate with the FASB in order to ensure the comparability of financial statements across entities/jurisdictions.

61 Some respondents noted that the subject matter in this ED could illustrate that there is room for improvement in IAS 12. IAS 12 is not always clear in term of scoping, especially in light of the recent developments under tax perspectives (e.g., new tax schemes). Currently, IAS 12 does not include any specific disclosure requirements aiming to provide information about an entity's exposure to tax legislation that is not yet in effect.

Question to EFRAG FR TEG and FRB member

62 Does EFRAG FR TEG and FRB members have comments or questions on the EFRAG Secretariat's summary of the comment letters received?

Appendix 2 – List of respondents

No	Respondent	Country	Type of respondent
CL01	GDV	Germany	Preparer/ Preparer organisation
CL02	FBF	France	Preparer/ Preparer organisation
CL03	ASCG	Germany	Standard Setter
CL04	CNC	Portugal	Standard Setter
CL05	OIC	Italy	Standard Setter
CL06	Business Europe	Belgium	Preparer/ Preparer organisation
CL07	ESMA	France	Regulator
CL08	ICAC	Spain	Standard Setter
CL09	AFRAC	Austria	Standard Setter
CL10	EFFAS	Germany	Users/ User organisation
CL11	DASB	Netherlands	Standard Setter
CL12	GBIC	Germany	Preparer/ Preparer organisation
CL13	EY	Global	Auditor
CL14	Siemens	Germany	Preparer
CL15	DRAFT1	France	Preparer/ Preparer organisation
CL16	DRAFT2	Norway	Standard Setter
CL17	DRAFT3	France	Standard Setter