FÉDÉRATION BANCAIRE FRANÇAISE

Banking supervision
And Accounting issues Unit

The Director

Paris, February 24th, 2023

The FBF comments on the IASB's Exposure Draft – International Tax Reform - Pillar Two Model Rules (Proposed amendments to IAS 12)

Dear Mr Klintz,

The FBF appreciates the opportunity to comment on the EFRAG draft comment letter regarding the exposure draft *"International Tax Reform - Pillar Two Model Rules (Proposed amendments to IAS 12)"*.

We share EFRAG's views regarding the support to the IASB temporary mandatory exception to the accounting deferred taxes arising from the implementation of the Pillar Two model rules.

We share also ERAG's concerns about the scope of IAS 12 regarding Pillar Two income taxes. There is a need for clarification regarding whether IAS 12 applies to income taxes arising from tax law enacted or substantially enacted to implement the Pillar Two rules at the level of the sub-consolidated entities of a group or even on the individual IFRS financial statements of consolidated entities.

Concerning the disclosure requirements, while we agree to provide users of financial statements with information regarding the entity's potential exposure to Pillar Two legislation, we have doubts on the usefulness of some of the quantitative disclosures required in the exposure draft. Our comments below are those that we have expressed to the IASB in our response to the exposure draft consultation.

Regarding paragraph 88C.a) requirements and considering the cost-benefit analysis, we believe that assessment whether Pillar Two legislation is substantively enacted or is enacted should be limited to jurisdictions in which the entity operates that are material for the entity.

We also have doubts about the usefulness of targeted disclosures before the top-up tax rules come into effect of paragraph 88C.b) of the exposure draft, i.e. aggregated information about the profit before tax, income tax expense and weighted- average Effective Tax Rate of these for low-tax jurisdictions.

EFRAG
Mr. Wolf Klintz
FRB Chair
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These disclosures that are supposed to evaluate the impact of the Pillar Two Model Rules will be prepared in accordance with IAS 12 rather than the requirements in the Pillar Two Model Rules that differ from IAS 12. Presenting information based on one rule when it is expected on another rule may be misrepresentative.

Besides, certain jurisdictions will adopt the Pillar Two rules from 2024, as it is the case in Europe where the European Directive implementing the GloBe rules will be transposed into the tax systems of each member state by 31 December 2023. So, for these jurisdictions, the calculation of an effective tax rate based on IAS 12 will only apply for one year - 2023. As a result, the tax rates for 2023 and 2024, will be calculated on different bases – the Pillar Two rules and IAS 12 - and will not be comparable in any meaningful way. The information thus provided will create confusion and expectations from users of financial statements, notably regarding comparability of two financial reporting years, that will be difficult for entities to respond.

In addition, the disclosures required before and after the enactment of Pillar Two raise data availability issues as the Pillar 2 rules will be enacted at different times in different jurisdictions. As a result, at this stage, entities may not have reliable information to perform the calculations to meet these disclosures requirements. The necessary data may not be always available, will be costly to collect and to provide for preparers without proven benefit.

Instead, we suggest that the disclosures in paragraph 88C.b) should be rather qualitative. When the jurisdictions are only material to the reporting entity, the reporting entity may elaborate on a summary of the legislation of Pillar Two Income Taxes and include proposed legislation that is reasonably expected to be enacted for the reporting entity within the subsequent reporting periods.

In paragraph 88.c), the ED requires information on whether the entity has made assessment on other jurisdictions where the reporting entity may be exposed to top-up tax and an indication where there may be no top-up tax exposure in a current ‘low-tax’ jurisdiction.

We do not see the rationale for such disclosures because, once the entity has made the assessments of possible exposure to Pillar Two tax in jurisdictions in which it operates, the information will be disclosed if the entity considers it as material.

Therefore, we would suggest deleting the paragraph 88C.c) requirements.

We hope you find our comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Barbara Sillac.