



**EFFAS**<sup>®</sup>

The European Federation  
of Financial Analysts Societies

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**Re: CL- Pillar Two Model Rules**

**Contact: Phillip Liriano**

27<sup>th</sup> February - 2023

Dear Mr. Klinz

The EFFAS Commission on Financial Reporting (“Commission”, “We”) would like to share with you its views on EFRAG’s Comment Letter (“CL”) *Exposure Draft International Tax Reform – Pillar Two Model Rules*

The Commission supports EFRAG’s comments on Pillar Two Rules. We agree with the mandatory exception and support a postponement of the requirements of IAS 12. Also, as we noted in our letter to the IASB additional disclosures, guidance and clarification might be necessary in the application of top-up tax based on Pillar Two.

The effective date proposed of January 1-2023 might be suitable as far as entities provide useful disclosures. Users need clear and relevant information.

EFFAS supports EFRAG’s comprehensive and high-quality documents and continues emphasizing the need for clarity and concreteness to facilitate a fluent reading.

Regarding the key points of the Letter, we would like to comment as follows.

### **1.- Temporary Exception**

The Commission understands OECD’s objective of imposing a 15% minimum tax rate on multinationals. These are entities generating more than €750 million in consolidated income in each jurisdiction where they operate. We also recognize that for an entity trying to apply this minimum requirement across-jurisdictions it might be complex and costly while time is needed.

The Commission agrees with EFRAG’s CL supporting the application of a mandatory exception to the requirements of IAS 12. Additional clarification from the IASB is needed and companies have to understand better the application of the new tax proposal in the different jurisdictions. The mandatory element should facilitate comparability and avoid disclosing misleading information. We agree not to include a sunset clause as mentioned in paragraph 14.

EFFAS Comments on: *Pillar Two Model Rules*



Moreover, we understand EFRAG's concerns in extending the mandatory exception to the disclosures of deferred tax assets and liabilities as mentioned in paragraph 13. However, we consider that EFRAG's point related to the exception in future periods should be made clearer and more concrete. Requesting excessive information from entities might be onerous, costly, and not useful for users. Clarification from the IASB - until the final standard reflecting Pillar Two amendment is approved- should alleviate this concern.

Lastly, we agree with EFRAG's view that additional clarification to paragraph 4 of the ED related to its applicability in situations outside the context of consolidated financial statements of the ultimate parent entity will be helpful.

## 2.- Disclosures

The Commission broadly supports the amendment to IAS 12 as depicted in paragraphs 88A-88C of the IASB ED. Nevertheless, we agree with EFRAG that the IASB should provide additional clarification in certain paragraphs of the ED related to Disclosures before the legislation comes into effect.

Users need information that is useful. We support entities providing information indicating the potential impact of Pillar Two according to the jurisdiction where they operate. The information will be useful when it is related to the potential effect on deferred tax and in the consolidated effective tax rate. Information on how the subsidiary of an entity might be affected when applying the 15% minimum tax rate will be valuable information.

We agree with EFRAG's comments in paragraph 31 stating that the benefit of providing information must outweigh the cost. We acknowledge, as we noted in our comments to the IASB, ... *the difficulties for companies in providing detailed information on the new tax requirements particularly in compliance with IAS 12.*

On this basis, as indicated in EFRAG's CL, certain information in paragraph 32 might not be needed. Moreover, the Commission considers that EFRAG's CL paragraphs 34 and 35 should be clarified. It is difficult to understand EFRAG's point and request.

We also agree that entities should avoid making general statements about the impact of the rule without providing details. We will consider it acceptable that entities provide an objective assessment of the potential impact of the rule. Where a solid base for the assessment of the potential impact is not there, we would prefer that entities do not provide an assessment. Confusing information that could derive into a misleading



conclusion should be avoided. Users will not rely on subjective information and disclosures that differ from IAS 12.

Regarding disclosures when the legislation is in effect, the Commission agrees with EFRAG and the IASB proposal. We consider the disclosure required to understand the overall tax expense structure of an entity including expenses related to Pillar Two useful.

### **3. Effective date and transition**

We agree that the exception is applied immediately upon the IASB issuing the amendments. The disclosure requirements should be applied for the annual reporting period beginning on or after 1<sup>st</sup> January 2023.

Finally, the Commission supports EFRAG's proposal to prepare a pre-established plan which will be useful to review periodically the evolution of the implementation of Pillar Two in the different jurisdictions and in turn its effect on the IAS 12.

If you would like to further discuss the views expressed in this letter, please contact us.

Javier de Frutos, Chairman

On behalf of EFFAS Commission on Financial Reporting

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