EFRAG
Attn. EFRAG Technical Expert Group
35 Square de Meeûs
B-1000 Brussels
Belgium

RAAD VOOR DE JAARVERSLAGGEVING

Secretariaat:
Antonio Vivaldistraat 2, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 03 91
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-EFRAG 621 B
Direct dial: Tel.: (+31) 20 301 0391
Date: Amsterdam, 28 February 2023
Re: EFRAG draft comment letter in response to ED/2023/01International Tax Reform—Pillar Two Model Rules

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on your draft comment letter dated 30 January 2023 (Draft Comment Letter) in response to the IASB's Exposure Draft 2023/1 International Tax Reform—Pillar Two Model Rules (hereafter ED).

We generally agree with EFRAG's draft response to the ED. The DASB understand the IASB's efforts to develop disclosure requirements which would provide users with information about the effect of the implementation of Pillar Two Rules in periods in which the legislation is enacted or substantively enacted but not yet in effect. However, we have doubt concerning the usefulness of the proposed disclosure requirements and the related cost and effort. We advise requiring principle-based disclosures in which the entities provide qualitative and/or quantitative (expected) effects of the Pillar-II legislation. As proposed by us, such disclosures can be provided without undue cost or effort, which we believe is an important criterion, especially for one-off disclosures as in this case. Furthermore we have doubt concerning the proposed disclosure requirement of 88B to disclose separately the current tax expense (income) related to Pillar Two taxes. In respect to tax transparency we refer to e.g. the country-by-country report, tax contribution report or directors' report (required in the EU).. We advise the IASB to reconsider the necessity of this information in the financial statements. Our detailed feedback is provided in the appendix.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendices:
Appendix 1 – Views on EFRAG Draft Comment Letter
Appendix 2 – DASB Comment Letter on ED/2023/01 to IASB

Appendix – Views on EFRAG Draft Comment Letter

Question 1— Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A of the ED)

The DASB agrees with EFRAG's response to the ED.

Questions to Constituents

18 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?

19 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?

20 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)?

The DASB agrees with the proposed temporary mandatory exception to the recognition of deferred taxes arising from the implementation of the Pillar Two Model Rules, including the qualified domestic minimum top-up tax described in the Pillar Two Model Rules of the OECD. The proposed exception relieves the concerns of stakeholders, enhances the consistency and comparability of financial statements and creates time for the IASB to perform in-depth research of the accounting implications of the Pillar Two Model Rules.

The DASB advises the IASB to change the mandatory exception to the disclosure of information about deferred taxes related to Pillar Two income taxes from 'shall not disclose' to 'need not disclose'. The reason for this proposal is that a mandatory exception to a disclosure is unprecedented under IFRS. The DASB believes that entities should be free to disclose information in the financial statements if the information is relevant and reliable.

We support EFRAG's recommendation to clarify how to apply top-up tax based on the Pillar Two Model Rules in the scope of IAS 12 in situations outside the context of the consolidated financial statements of the ultimate parent entity. In general, the ultimate parent entity will prepare and file the Pillar Two top-up tax return. It could happen that this responsibility is allocated to an intermediate holding entity and that this holding entity also has to pay the Pillar Two top-up tax for its sister companies. The current IFRS does not contain guidance on the accounting treatment of the top-up tax paid by the filing entity on behalf of its sister entities or guidance on the accounting for top-up tax recharges to sister entities. We welcome the IASB to perform further research on this topic in a separate project and add this topic to the agenda. Such project should be worked on separately from the current proposals due to their urgent nature, additionally such project should have a wider scope as similar questions also exist for other income tax related matters, such as the accounting for and allocation of income taxes within a fiscal unity.

Question 2— Disclosure (paragraphs 88B-88C of the ED)

In general, we have doubts about the usefulness of the information proposed in paragraph 88C (b). Firstly, the accounting effective rate is not equal to the Pillar Two effective tax rate. The entity has to make many adjustments to calculate the Pillar Two effective tax rate from the financial statements. An

entity with an accounting effective tax rate exceeding 15% could end up with a Pillar Two effective tax rate of less than 15%, and vice versa. Secondly, the effective tax rates and the company structure before and after the effective date of the Pillar Two legislation could be significantly different. The required information does not necessarily provide a relevant indication of the expected effects of Pillar Two legislation.
The disclosure requirements of 88C (c) could provide some relevant information about the Pillar Two effects. However, based on the current wording, entities could meet the disclosure requirements of 88C (c) by simply stating "yes, the assessment has been made" or "no, no assessment has been prepared yet". Such answer provides limited information to users of the financial statements.

Question to Constituents

38 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?

EFRAG has made limited suggestions in the disclosure requirements of 88C. The DASB advises the IASB to require more principle-based disclosures which allow entities to provide relevant qualitative and/or quantitative information on the Pillar Two effects.
Possible alternatives for disclosures 88C (b) and (c) are:

- Provide the status of the Pillar Two assessment which is made in preparing to comply with Pillar Two legislation.
- Disclose, based on the Pillar Two assessment, known or reasonably estimable information relevant to assessing the possible impact that application of Pillar Two legislation will have on the entity's financial statements in the period of initial application. If that impact is not known or reasonably estimable, provide a statement to that effect.

The DASB believes that most entities that are within the scope of Pillar Two Model Rules will have started their assessment (and possibly tax planning). By requiring entities to disclose information based on the (interim) Pillar Two assessment, entities do not need to incur additional costs as they will be preparing the assessment anyway.
Furthermore, if an entity is not able to provide information on the quantitative effects of the Pillar Two legislation, the entity could provide qualitative information which would still give users of the financial statements an appropriate degree of insight.
We believe that such principle-based disclosures in which the entities provide qualitative and/or quantitative (expected) effects of the Pillar-II legislation can be provided without undue cost or effort, which we believe is an important criterion, especially for one-off disclosures as in this case.

Finally, 88B requires entities to disclose separately the current tax expense (income) related to Pillar Two taxes. The usefulness of this disclosure may be very limited as it is influenced by many factors including (developments in) local tax requirements. When relevant this information may already be required as part of the effective tax rate reconciliation and explanations to changes in tax rates (IAS12.81 (c) and (d)).
Furthermore, in respect to tax transparency we refer to e.g. the country-by-country report, tax contribution report or directors' report (required in the EU). The DASB advises the IASB to reconsider the necessity of this information in the financial statements.

Question 3— Effective date and transition (paragraph 98M of the ED)

The DASB agrees with the proposed effective date and transition provisions. We support EFRAG's recommendation that the IASB schedule a concrete work plan for reviewing the developments of Pillar Two Model Rules so that the exception may be terminated at the appropriate time.

Question to Constituents	
44	Are there any additional questions or issues that should be taken into consideration by EFRAG in its Final Comment Letter?

Given the recent developments, the Pillar Two legislation could impact interim and annual financial statements in 2023. We would therefore like to highlight the urgency of the publication of the Amendments to IAS 12.

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RAAD VOOR DE JAARVERSLAGGEVING

Secretariaat:
Antonio Vivaldistraat 2, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 03 91
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-IASB 510 C
Direct dial: Tel.: (+31) 20 301 0391
Date: Amsterdam, 28 February 2023
Re: ED/2023/01 01 International Tax Reform - Pillar Two Model Rules

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on the Exposure Draft 'International Tax Reform - Pillar Two Model Rules' (ED).

In doing so, we also refer to EFRAG's draft comment letter dated 30 January 2023 (Draft Comment Letter). We generally agree with the comments provided by EFRAG, unless indicated otherwise in this letter (including appendix).

The DASB welcomes the IASB's efforts to address the concerns of stakeholders and provide timely temporary guidance on how to apply IAS 12 in accounting for Pillar Two top-up tax. Our key messages are:

- We support the IASB's proposal to provide a temporary mandatory exception to recognise deferred taxes arising from the implementation of the Pillar Two Model Rules. The DASB advises the IASB to change the mandatory exception to the disclosure of information from 'shall not disclose' to 'need not disclose'. The DASB believes that entities should be free to disclose information in the financial statements if the information is relevant and reliable.
- We advise the IASB to further explore, in a separate project, the accounting for Pillar Two top-up tax outside the context of the consolidated financial statements of the ultimate parent entity, as well as similar questions such as the accounting for and allocation of income taxes within a fiscal unity .
- We have doubt concerning the usefulness of the proposed disclosure requirements of 88C (b) and (c) and the related cost and effort. We advise requiring principle-based disclosures in which the entities provide qualitative and/or quantitative (expected) effects of the Pillar-II legislation. As proposed by us, such disclosures can be provided without undue cost or effort, which we believe is an important criterion, especially for one-off disclosures as in this case.
- We have doubt concerning the proposed disclosure requirement of 88B to disclose separately the current tax expense (income) related to Pillar Two taxes. In respect to tax transparency we refer to e.g. the country-by-country report, tax contribution report or directors' report (required in the EU). We advise the IASB to reconsider the necessity of this information in the financial statements.

The DASB agrees with the proposed effective date and transition provisions.

Finally, given the recent developments, the Pillar Two legislation could impact interim and annual financial statements in 2023. We would therefore like to highlight the urgency of the publication of the Amendments to IAS 12.

Our detailed responses to the questions in the ED are provided in the appendix, including some further comments and suggestions for potential improvements.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix – Responses to Exposure Draft Questions

Question 1—Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)
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.

The DASB agrees with the proposed temporary mandatory exception to the recognition of deferred taxes arising from the implementation of the Pillar Two Model Rules, including the qualified domestic minimum top-up tax described in the Pillar Two Model Rules of the OECD. The proposed exception relieves the concerns of stakeholders, enhances the consistency and comparability of financial statements and creates time for the IASB to perform in-depth research of the accounting implications of the Pillar Two Model Rules.

The DASB advises the IASB to change the mandatory exception to the disclosure of information about deferred taxes related to Pillar Two income taxes from 'shall not disclose' to 'need not disclose'. The reason for this proposal is that a mandatory exception to a disclosure is unprecedented under IFRS. The DASB believes that entities should be free to disclose information in the financial statements if the information is relevant and reliable.

We support EFRAG's recommendation to clarify how to apply top-up tax based on the Pillar Two Model Rules in the scope of IAS 12 in situations outside the context of the consolidated financial statements of the ultimate parent entity. In general, the ultimate parent entity will prepare and file the Pillar Two top-up tax return. It could happen that this responsibility is allocated to an intermediate holding entity and that this holding entity also has to pay the Pillar Two top-up tax for its sister companies. The current IFRS does not contain guidance on the accounting treatment of the top-up tax paid by the filing entity on behalf of its sister entities or guidance on the accounting for top-up tax recharges to sister entities. We welcome the IASB to perform further research on this topic in a separate project and add this topic to the agenda. Such project should be worked on separately from the current proposals due to their urgent nature, additionally such project should have a wider scope as similar questions also exist for other income tax related matters, such as the accounting for and allocation of income taxes within a fiscal unity.

Question 2—Disclosure (paragraphs 88B–88C)

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.

In general, we have doubts about the usefulness of the information proposed in paragraph 88C (b). Firstly, the accounting effective rate is not equal to the Pillar Two effective tax rate. The entity has to make many adjustments to calculate the Pillar Two effective tax rate from the financial statements. An entity with an accounting effective tax rate exceeding 15% could end up with a Pillar Two effective tax rate of less than 15%, and vice versa. Secondly, the effective tax rates and the company structure before and after the effective date of the Pillar Two legislation could be significantly different. The required information does not necessarily provide a relevant indication of the expected effects of Pillar Two legislation.

The disclosure requirements of 88C (c) could provide some relevant information about the Pillar Two effects. However, based on the current wording, entities could meet the disclosure requirements of 88C (c) by simply stating "yes, the assessment has been made" or "no, no assessment has been prepared yet". Such answer provides limited information to users of the financial statements.
The DASB advises the IASB to require more principle-based disclosures which allow entities to provide relevant qualitative and/or quantitative information on the Pillar Two effects.
Possible alternatives for disclosures 88C (b) and (c) are:

- Provide the status of the Pillar Two assessment which is made in preparing to comply with Pillar Two legislation.
- Disclose, based on the Pillar Two assessment, known or reasonably estimable information relevant to assessing the possible impact that application of Pillar Two legislation will have on the entity's financial statements in the period of initial application. If that impact is not known or reasonably estimable, provide a statement to that effect.

The DASB believes that most entities that are within the scope of Pillar Two Model Rules will have started their assessment (and possibly tax planning). By requiring entities to disclose information based on the (interim) Pillar Two assessment, entities do not need to incur additional costs as they will be preparing the assessment anyway. Furthermore, if an entity is not able to provide information on the quantitative effects of the Pillar Two legislation, the entity could provide qualitative information which would still give users of the financial statements an appropriate degree of insight.
We believe that such principle-based disclosures in which the entities provide qualitative and/or quantitative (expected) effects of the Pillar-II legislation can be provided without undue cost or effort, which we believe is an important criterion, especially for one-off disclosures as in this case.

Finally, 88B requires entities to disclose separately the current tax expense (income) related to Pillar Two taxes. The usefulness of this disclosure may be very limited as it is influenced by many factors including (developments in) local tax requirements. When relevant this information may already be required as part of the effective tax rate reconciliation and explanations to changes in tax rates (IAS12.81 (c) and (d)).
Furthermore, in respect to tax transparency we refer to e.g. the country-by-country report, tax contribution report or directors' report (required in the EU). The DASB advises the IASB to reconsider the necessity of this information in the financial statements.

Question 3—Effective date and transition (paragraph 98M)
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.

The DASB agrees with the proposed effective date and transition provisions. We support EFRAG's recommendation that the IASB schedule a concrete work plan for reviewing the developments of Pillar Two Model Rules so that the exception may be terminated at the appropriate time.