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Dear Sir

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

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We strongly support the amendments proposed by the IASB as they provide significant operational relief to entities and will increase comparability between entities while the effects of the Pillar Two rules are given sufficient time to be determined by entities. In addition to our support of the proposed amendments, we have suggested that certain disclosure requirements be clarified in the final amendments.

Our responses to the questions in the ED are set out in the attached Appendix A.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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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.

We agree with the proposal. The complexity of the Pillar Two model rules is significant and to estimate their deferred tax effect (particularly in the first periods of their application) would require estimation with significant assumptions such that the information value of deferred tax amounts recorded may have limited information value to users of financial statements.

We also support that this exception would be mandatory, as this will increase the comparability of entities. Despite the fact that all entities would be required to apply the exception, we also support the fact that disclosure of the exception would be required as this provides transparency that some tax effects may not be captured in the recognised amounts of deferred tax assets and liabilities.

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.

We support the efforts of the IASB to achieve an appropriate balance where certain disclosures may provide sufficient information about the effects of the Pillar Two rules rather than requiring their effects be considered in the determination of deferred tax balances. However, we believe certain aspects of the proposed disclosure requirements could be clarified.

Paragraph 88C(a) would require disclosure of 'information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates', however, it is unclear what 'information' this disclosure requirements refers to. For example, whether this disclosure is intended to require entities to disclose a list of jurisdictions in which it operates where the Pillar Two rules have been enacted but are not yet in effect. It is clear to us from reading the exposure draft and the accompanying basis for conclusions what is intended to be disclosed by paragraphs 88B and 88C(b)-(c), but not 88C(a).

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.

We agree with the proposed effective date and transition requirements. We believe that permitting entities to apply the amendments as soon as they are issued will be useful for entities that are significantly impacted by the Pillar Two rules, as jurisdictions may begin substantively enacting applicable legislation in Q1-Q2 2023. We also agree that it is appropriate to exempt entities from making the disclosures required by paragraphs 88B-88C until the preparation of their financial statements with an annual reporting period beginning on or after 1 January 2023. This would permit certain entities with 31 December 2022 or 31 March 2023 annual reporting period ends to apply the benefits of the exception without having to quickly prepare disclosures immediately after the amendments are issued.