



Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

Tel: +44 20 7951 2000  
Fax: +44 20 7951 1345  
ey.com

Accounting and Reporting Policy team  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

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Ref: DT/FRC  
Your ref:

Direct line: [REDACTED]

Email: [REDACTED]

Dear Sir

**FRED 83 – Draft amendments to FRS 102 *The Financial Standard applicable in the UK and Republic of Ireland* and FRS 101 *Reduced Disclosure Framework: International tax reform – Pillar Two model rules***

Ernst & Young LLP welcomes the opportunity to comment on FRED 83 ('the FRED') issued by the Financial Reporting Council ('the FRC').

We support this proposed amendment, which provides certainty over the accounting of deferred taxes in connection with Pillar Two tax legislation, consistent with that set out in IASB/ED/2023/1 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to IAS 12*, issued in January 2023. We agree the accounting for Pillar Two income taxes is relevant also to UK GAAP reporters and commend the FRC for issuing FRED 83 in advance of the finalisation of the IASB's proposals due to the urgency of this issue.

However, the IASB, at its supplementary meeting on 11 April 2023<sup>1</sup>, decided to introduce a disclosure objective and remove certain of the specific disclosure requirements in IASB/ED/2023/1. We support the FRC's commitment to consider, inter alia, the final amendments issued by the IASB. Our view is that the disclosures for FRS 102 reporters should not be more onerous than those required under IFRS Accounting Standards and urge the FRC to follow the same approach as in the IASB's final amendments.

We support disclosure exemptions for qualifying entities, both based on the current proposals in FRED 83 and in the event that disclosures aligned with the final amendments issued by the IASB.

If you have any matters arising concerning the content of our response, please contact me on [REDACTED].

Yours faithfully,

[REDACTED]

Daniel Trotman  
Partner – UK Head of the Financial Reporting Group  
Ernst & Young LLP  
United Kingdom

<sup>1</sup> [IFRS - Supplementary IASB Update April 2023](#)

## Responses to FRC questions

### **FRED 83 Draft amendments to FRS 102 *The Financial Standard applicable in the UK and Republic of Ireland* and FRS 101 *Reduced Disclosure Framework: International tax reform – Pillar Two model rules***

#### **Question 1**

Do you agree that the proposed definition of the term ‘Pillar Two legislation’ would capture all transactions that are relevant to this topic? If not, please provide examples to support your view.

Yes, we believe that the proposed definition of ‘Pillar Two legislation’ in the Glossary is appropriate and is aligned with that in IASB/ED/2023/1. We note that paragraph BC7 of IASB/ED/2023/1 also acknowledged that jurisdictions might introduce their own qualified domestic minimum top up tax (computed on a similar basis to the Pillar Two model rules) and that, accordingly, we agree that the application of the exemption would be appropriate in those cases too.

We note that paragraph 6 of the Basis for Conclusions to FRED 83 explains that “the term includes an implementation that applies the Pillar Two model rules more broadly, for example, by applying the system of top-up taxes described in those rules to groups operating in only one jurisdiction”. To avoid any differences in interpretation of scope, we would recommend that the FRC align the wording in the final amendments made to FRS 102 (and to its Basis for Conclusions) with the final amendments made by the IASB.

In that respect, we suggest that it would be helpful to amend the definition of Pillar Two legislation to say “Tax law that implements the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes computed on a similar basis to described in those rules.”

#### **Question 2**

Do you agree with the proposed amendments to FRS 102 that introduce mandatory temporary exceptions to recognising or disclosing information about deferred tax assets and liabilities related to Pillar Two income tax (proposed paragraph 29.2B), and to taking the effects of Pillar Two legislation into account when measuring deferred tax assets and liabilities (proposed paragraph 29.12)? If not, why not?

Yes. We agree with the introduction of the proposed mandatory temporary exceptions and the insertion of paragraphs 29.2B and 29.12A.

As a minor point, the end of paragraph 29.2B should refer to “Pillar Two income taxes.”

#### **Question 3**

Do you agree with the proposed amendments to FRS 102 that require an entity to disclose:

- (a) the fact that it expects to fall within the scope of Pillar Two legislation (proposed paragraph 29.28);
- (b) the current tax expense related to Pillar Two income taxes (proposed sub-paragraph 29.26(g)); and

(c) information that will enable users of financial statements to understand a group's potential exposure to paying top-up tax, when Pillar Two legislation has been enacted or substantively enacted but is not yet in effect (proposed paragraph 29.29)?

If not, why not?

We believe that the disclosure in paragraph 29.28 is appropriate. It is helpful to distinguish those entities that expect to fall within the scope of Pillar Two legislation and to which the mandatory exemption applies and hence whether additional disclosures might be expected.

We also agree with the disclosure of current tax expense (income) relating to Pillar Two income taxes set out in paragraph 29.26(g). However, we would recommend that it is clarified there or in the Glossary that all taxes arising from Pillar Two legislation are deemed to be income taxes for the purpose of accounting and disclosure of current tax.

The current disclosures in paragraph 29.29 of FRED 83 are based on those in paragraphs 88C(b) and (c), as set out in IASB/ED/2023/1. We set out comments on these in our response to the IASB on IASB/ED/2023/1, available at: [EY response \(IASB/ED/2023/1\)](#).

However, at a supplementary meeting on 11 April 2023<sup>2</sup>, the IASB determined to replace the proposals in Paragraph 88C with a disclosure objective which could be met by an entity disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. It is proposed that this information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity would instead be required to disclose a statement to that effect. It appears that the proposed disclosures in paragraphs 88C(b) and (c) of IAS 12, therefore, would be excluded from the final amendments.

In light of this development, we would urge the FRC to align its disclosures, where appropriate, to those included in the IASB's final amendments. In particular, we would not support disclosures more onerous than those determined to be required under IFRS Accounting Standards.

#### Question 4

Do you agree with the proposal to exempt qualifying entities, as defined in FRS 102 or FRS 101, from the disclosures that would otherwise be required by proposed paragraph 29.29 of FRS 102 and proposed paragraph 88C of IAS 12 *Income Taxes* respectively? If not, why not?

Yes, we agree with the proposal to exempt qualifying entities (as defined), from the disclosures that would otherwise be required by proposed paragraph 29.29 of FRS 102 and in 88C of IAS 12 *Income Taxes* respectively (where equivalent disclosures are given in the consolidated financial statements) – including any amendments to those paragraphs made as a result of the due process of the FRC and IASB respectively as the amendments are finalised.

<sup>2</sup> [IFRS - Supplementary IASB Update April 2023](#)

#### Question 5

Do you agree with the proposed effective dates for these amendments? If not, what difficulties do you foresee?

Yes. We support the proposal to require the exception to be applied immediately upon issue of the amendments and entities having the option to early apply the disclosure requirements. However, as drafted, it implies that paragraph 29.12A is not applied immediately. This is not consistent with the immediate application of paragraph 29.2B. Accordingly, we suggest that:

- (a) Paragraph 1.34(a) should be amended to state that paragraphs 29.2B and 29.12A should apply immediately upon issue of these amendments.
- (b) Paragraph 1.35 should refer to early application of paragraphs ~~29.12A~~, 29.26(g), 29.28 and 29.29.

We also commend the FRC for addressing this matter with urgency and hope that it will be possible to issue final amendments before Pillar Two legislation is substantively enacted, including the proposals in the Finance No.2 Bill currently being considered by the UK Parliament.

Further, we understand that the IASB intends that disclosures are not required in interim reports prepared under IAS 34 'Interim Financial Reporting' for interim reporting periods ending before 31 December 2023.<sup>3</sup> We suggest that the FRC provides a similar clarification in respect of interim reports prepared under FRS 104 'Interim Financial Reporting'.

#### Question 6

In relation to the consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

We have no comments on the assessment of costs and benefits.

<sup>3</sup> [IFRS - Supplementary IASB Update April 2023](#)