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19 May 2023

**Response to FRED 83 - Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 101 Reduced Disclosure Framework - International Tax Reform – Pillar Two Model Rules**

We welcome the opportunity to respond to the Financial Reporting Council's (FRCs) request for comments on Financial Reporting Exposure Draft 83 which implements the proposed amendments to IAS 12 relating to the International tax reform – Pillar Two model rule into FRS 102 and FRS 101.

We broadly agree with the proposal in particular with the strong support for the mandatory exception from accounting for deferred tax arising from Pillar Two model rules and the absence of a sunset clause as well as the accelerated timetable.

We understand the concerns raised by stakeholder during the consultation on the IASB's ED/2023/1 regarding the disclosure requirements and believe that establishing disclosure principles rather a prescriptive list of disclosure requirements might result in a better standard.

Our detailed responses to the questions raised in the Invitation to Comment are set out in the Appendix.

Yours sincerely

KPMG LLP

## Appendix

### 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.

We agree.

### 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?

We agree with both proposals.

### 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 agree with the proposal to require an entity to disclose the fact that it expects to fall within the scope of Pillar Two legislation as well as the proposal to disclose the current tax expense arising from Pillar Two income taxes.

We agree in principle with a requirement for disclosure of information on the effect of the Pillar Two legislation in the period where the legislation has been enacted or substantively enacted but is not yet effective. Such disclosure provides the user of the financial statements with an indication of the expected consequences of the forthcoming legislation to the entity.

We believe however, that this purpose would be better addressed through setting out disclosure principles that allow an entity to disclose information relevant to its particular circumstances.

We are aware that similar concerns were raised in response to the IASB's proposal and note that the IASB board in a recent meeting have tentatively agreed to consider a more principles-based approach and move away from a more prescriptive disclosure requirement.

We believe it would be helpful for the disclosure requirements in FRS 102 to align with those required by IAS 12 and assume that the FRC will be monitoring the IASB's developments closely.

**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?

We agree that generally the most useful information for users of financial statements about exposure to Pillar Two taxes will be in the consolidated financial statements and therefore support an exemption for qualifying entities.

We note however, that there might be scenarios, until the Pillar Two legislation has been universally enacted, where entities that have chosen not to prepare consolidated accounts might be responsible for Pillar Two taxes. Disclosure in those entities would be useful for the reader of the accounts.

We also note that were the FRC to follow the IASB's intention to introduce principles-based disclosures, the above concern wouldn't arise as each entity would make an assessment based on its specific facts and circumstances. This would also for example extend to disclosures of recharge arrangements in place in a group for top-up tax.

**Question 5**

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

We agree with the proposed effective dates.

**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 consultation stage impact assessment.