



By email to: ukfrs@frc.org.uk
Accounting and Reporting Policy team
Financial Reporting Council
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24 May 2023

Dear Sir/Madam

Consultation document - 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 comment, on behalf of PricewaterhouseCoopers LLP, on FRED 83. We appreciate the speed with which the FRC has sought to address this issue. We recognise the urgent need for clarity on the accounting in consolidated and separate accounts for deferred taxes that may arise from the Pillar Two Model Rules ('rules') in light of the imminent enactment of tax law to implement the rules in some jurisdictions, including the UK.

Our responses to the questions asked by the FRC are given in the appendix.

If you have any questions or would like to discuss any of the comments we have made in this letter, please contact Peter Hogarth on [REDACTED].

Yours faithfully

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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.

The FRC’s proposed amendments to FRS 102 mirrors that of the IASB’s proposed amendments to IAS 12. The IASB’s proposed amendments are being introduced to provide entities and the IASB time to determine how to apply the principles of IAS 12 on a consistent basis to account for deferred taxes related to the Pillar Two top-up tax.

In our network firm’s comment letter to the IASB, we noted that the inclusion of ‘qualified domestic minimum top-up taxes’ (QDMT) may mean the exception might be too broad. From a Global Anti-Base Erosion (GloBE) perspective, QDMT includes taxes that are ‘*in a manner that is equivalent to the GloBE rules*’. It is currently unclear how ‘*in a manner equivalent*’ may be interpreted for determining whether the domestic minimum tax will be assessed to be a QDMT.

Additionally, the application of the deferred tax requirements of IAS 12, and by inference the deferred tax requirements of FRS 102 Section 29, may not be complex for some qualified domestic minimum top-up taxes. For instance a local regime could have the income tax rate set at 10% but an additional 15% is payable for entities that fall in the scope of Pillar Two. We would not expect the additional top-up tax in this example to be a QDMT, but there is no guarantee at this time that this would be where the local jurisdiction/OECD would land given the potential political nature of these decisions. However, we would expect the deferred tax accounting to be relatively straightforward in this scenario and believe the top-up tax should be in the scope of IAS 12 accounting.

Nevertheless, we agree to the proposed definition and the scope of the exception as it is consistent with the IASB’s proposal. However we recommend, as we have done to the IASB, that the FRC keeps the scope exception for QDMT under review as there may be simpler domestic tax regimes where such an exception is not appropriate.

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 the FRC’s proposal to introduce a mandatory exception to the requirements of FRS 102 section 29 on the recognition and measurement of deferred tax assets and liabilities related to taxes arising from Pillar Two Legislation.

We believe that having the exception helps avoid any confusion as to whether deferred tax should be recognised for the Pillar Two model rules. It avoids there being diversity in practice as to the policies and interpretations entities apply, and for excessive cost being incurred and effort being expended producing Pillar Two deferred tax information that might not be useful for users of financial statements.

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 note that the FRC's proposed disclosures mirror those of the IASB in their exposure draft on the proposed amendments to IAS 12. However, in response to feedback on their exposure draft, when the final amendments were issued on 23 May 2023 the IASB revised their proposals to require disclosure to help users understand the entity's exposure to Pillar Two income taxes, including disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. To the extent that information is not known or reasonably estimable, entities should disclose that fact along with an entity's progress made in assessing its exposure to Pillar Two income taxes..

We recommend that the FRC mirrors the requirements of the final IAS 12 amendment in this regard. Therefore, we believe that the disclosure requirements should be updated to include a disclosure objective to provide qualitative and quantitative information about an entity's exposure to Pillar Two income taxes and information about an entity's progress to determine its exposure.

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 with the proposed disclosure exemption for qualifying entities applying FRS 102 or FRS 101. However we observe that many qualifying entities are unlikely to pay Pillar two taxes as they will be borne by their ultimate parent entity when they are in a territory that has an income inclusion rule. Where they are borne by a qualifying entity applying FRS 102 or FRS 101, and it is included in consolidated IFRS financial statements, there would normally be equivalent disclosures and the exemption would be applicable. Where there are not equivalent disclosures in the consolidated financial statements, or the entity is not a qualifying entity, it would be appropriate to provide the disclosures proposed by paragraph 29.29 of FRS 102 and IAS 12.

Question 5

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

We agree with the proposal regarding the effective date of the exception and the disclosure requirements. We would encourage the proposed FRS 102 amendments to be expedited to the standard as soon as possible.

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 agree that it is difficult to determine how many FRS 102 and FRS 101 preparers will be impacted by Pillar Two requirements. In the majority of cases they will be subsidiaries of 'Multi-National Entities' (MNEs) and will not be impacted as the Pillar Two taxes will be borne by their ultimate parent entity when they are in a territory that has an income inclusion rule. But we believe that it is likely that some entities will be impacted. Therefore we believe that it is appropriate to introduce the exemption to avoid undue costs for that unknown number of entities from having to prepare deferred tax calculations required by Section 29.