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Representation 10/2023

Accounting and Reporting Policy Team
Financial Reporting Council
8th Floor
125 London Wall
London
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United Kingdom

24 May 2023

[by email to ukfrs@frc.org.uk]

To whom it may concern

Subject: 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, the Financial Reporting Technical Committee of Chartered Accountants Ireland (FRTC), welcome the opportunity to respond to this Financial Reporting Exposure Draft (FRED).

Overall, we welcome the proposals outlined in the FRED and appreciate the speed with which the FRC has sought to address this issue because of the imminent enactment of Pillar Two legislation in some jurisdictions. We agree that, without the exception proposed in the FRED, there is a risk that entities would otherwise apply principles and requirements of Section 29 inconsistently to account for deferred tax related to Pillar Two income tax. We agree that the FRC should remove the exception when an accounting treatment for Pillar Two income taxes is established that better meets the FRC's overriding objective.

Please refer to Appendix 1 for our responses to the questions included in the "Invitation to comment". If you would like to discuss any of the comments in more detail, please do not hesitate to contact me at [redacted]

Yours sincerely

[redacted]

Mike O'Halloran
Secretary to the Financial Reporting Technical Committee of Chartered Accountants Ireland

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<u>Appendix 1</u>

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.

FRTC agrees with the proposed definition of Pillar Two legislation.

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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?

FRTC agrees with the proposals to introduce a temporary mandatory exception to recognising or disclosing information about deferred tax assets and liabilities related to Pillar Two income tax and to taking the effects of Pillar Two legislation into account when measuring deferred tax assets and liabilities.

As the exception represents a departure from the principles of Section 29 of FRS 102 we agree with the 'temporary' nature of the exception.

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?

FRTC agrees with the proposed disclosures and agrees that disclosure is important if an entity's future tax cash flows may be affected by the implementation of Pillar Two legislation.

We note that the proposed definition of "average effective tax rate" is "Tax expense divided by profit or loss before taxation" and this definition is used in the proposed disclosure required by FRS 102, paragraph 29.29(b). We suggest that the FRC should clarify whether this disclosure includes entities which have a negative effective tax rate for the period, for example due to losses incurred and the recognition of a deferred tax asset.

Paragraph 8 of the FRED refers to introducing paragraphs 29.28 to 29.30 however there is no paragraph 29.30.

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?

FRTC agrees with the proposal to exempt qualifying entities from the disclosures that would otherwise be required by the proposed paragraph 29.29 of FRS 102 and proposed paragraph 88C of IAS 12 Income Taxes respectively.

Question 5

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

FRTC agrees with the proposed effective dates for these amendments. FRTC welcomes the expedited nature of the FRED and FRC's work in this area and supports the issue of final amendments to FRS 101 and FRS 102 as soon as practicable.

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.

FRTC does not have any specific comments on the costs and benefits identified in the consultation stage impact assessment. However, the conclusions reached by the FRC that additional costs are limited and would be less than the costs avoided appears reasonable.