By 24 May 2023

Financial Reporting Council (FRC)

Draft amendments to FRS 102 and FRS 101: International tax reform – Pillar Two model rules

Response from ICAS

Financial Reporting Council

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

About ICAS

1. ICAS is a professional body for more than 23,600 world class businesspeople who work in the UK and in more than 80 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

2. More than half of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

3. We currently have over 4,400 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

4. ICAS was created by Royal Charter in 1854.

General comments

5. ICAS welcomes the opportunity to respond to the Financial Reporting Council's (FRC's) Financial Reporting Exposure Draft (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' which was published on 5 April 2023.

6. We support the approach taken by the FRC in FRED 83 in response to the 'Pillar Two model rules' published by the Organisation for Economic Co-operation and Development (OECD) in December 2021.

   The Pillar Two model rules:

   (a) Aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate.

   (b) Would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on excess profit in each jurisdiction representing at least the minimum rate of 15%.

7. We understand that the proposed amendments to FRS 102 and to FRS 101 may change as a result of:

   (a) Further statements made by the UK and Irish governments about the approaches taken to incorporate the Pillar Two model rules into domestic legislation.

   (b) The comments received on FRED 83.

   (c) The final amendments issued by the International Accounting Standard Board (IASB) arising from its project 'International tax reform—Pillar Two model rules'.

   Pressing ahead with this consultation prior to further related statements from the UK and Irish governments and the publication by the IASB of its finalised related amendments to International Accounting Standard (IAS) 12 Income taxes makes sense given the tight implementation timetable proposed.

8. In finalising amendments to FRS 102 and FRS 101, we recommend that the FRC is mindful of the response from the UK Endorsement Board (UKEB) to the IASB's 'Exposure Draft ED/2023/1 International tax reform – Pillar Two model rules: Proposed amendments to IAS 12'.

Specific questions

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.

9. We believe that the proposed definition of the term 'Pillar Two legislation' would capture all transactions relevant to this topic.

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?

10. We support proposed new paragraphs 29.2B and 29.12A. We believe that this question is referring to proposed paragraph 29.12A rather than existing paragraph 29.12.

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?

11. We support proposed paragraphs 29.28 and 29.29 and proposed sub-paragraph 29.26(g).

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?

12. We support the proposal to exempt qualifying entities as defined in FRS 102 or FRS 101 from the disclosures in proposed paragraph 29.29 of FRS 102 and proposed paragraph 88C of IAS 12 provided the disclosures covered by the exemption are met in the consolidated financial statements in which the entity is included.

13. We make this comment notwithstanding the following comments made by the UKEB in respect of paragraph 88C of IAS 12.

    "UK preparers and accounting firms expressed concerns that paragraph 88C (b) may result in qualitative and quantitative information that does not meet the objective expressed at [Basis for Conclusions] BC19. They commented that the jurisdictional effective tax rate on an IAS 12 basis could be a poor proxy for the jurisdictional effective tax rate on a Pillar Two basis. We understand that the disclosures under paragraph 88C (c) are designed to indicate cases when an entity is aware that the information provided under paragraph 88C (b) may be insufficient in isolation. However, stakeholders expressed concerns that 88C (c) does not provide a sufficient corrective, since it does not require any quantitative or other detailed information."

Question 5. Do you agree with the proposed effective dates for these amendments? If not, what difficulties do you foresee?

We support the effective dates as currently set out in proposed paragraph 1.34, recognising that the effective date of proposed paragraph 29.2B is linked to the publication of final FRED 83 amendments by the FRC and that the effective date of proposed paragraphs 29.12A, 29.26(g), 29.28 and 29.29 depend on the timing of:

- Further statements made by the UK and Irish governments about the approaches taken to incorporate the Pillar Two model rules into domestic legislation.
- The final amendments issued by the IASB arising from its project 'International tax reform—Pillar Two model rules.

We also support the proposal that entities which choose to adopt the amendments early disclose this fact.

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.

14. We have no comments on the consultation stage impact assessment.

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