
IASB meeting

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Topic	Disclosures
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Introduction and purpose

1. As explained in Agenda Paper 12, this paper:
 - (a) summarises feedback on the proposal in the [Exposure Draft *International Tax Reform—Pillar Two Model Rules*](#) to require an entity to disclose specific information to users of financial statements (investors) before and after the Pillar Two model rules are in effect; and
 - (b) provides our analysis of that feedback and recommendations.

Structure of this paper

2. This paper includes:
 - (a) summary of staff recommendations (paragraphs 4–5);
 - (b) summary of feedback, staff analysis and recommendations on disclosures for:
 - (i) periods before legislation is in effect (paragraphs 6–62); and
 - (ii) periods when legislation is in effect (paragraphs 63–74).
3. There are three appendices to this paper:
 - (a) Appendix A—specific comments on proposed paragraph 88C;

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- (b) Appendix B—other comments; and
 - (c) Appendix C—feedback from outreach activities.

Summary of staff recommendations

4. Based on our analysis, we recommend that the IASB:
 - (a) require that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect:
 - (i) an entity disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.
 - (ii) in meeting that disclosure objective, an entity disclose known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to be compliant in all respects with 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 should instead disclose a statement to that effect.
 - (b) finalise the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.
5. In addition to the above, we ask the IASB if it wishes to require an entity to disclose further information in periods before legislation is in effect.

Periods before legislation is in effect

Proposals in the Exposure Draft

6. The IASB proposes to add paragraph 88C to IAS 12, which would state:

88C In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity shall disclose, for the current period only:

- (a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.
- (b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86) for the current period is below 15%. The entity shall also disclose the tax expense (income) and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.
- (c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:
 - (i) identified in applying paragraph 88C(b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or
 - (ii) not identified in applying paragraph 88C(b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

7. Paragraphs BC19–BC21 of the Exposure Draft explain investors' information needs and how the IASB sought to identify information that could help meet those needs without involving undue cost or effort:

BC19 In periods before Pillar Two legislation is in effect, users of financial statements need information to help them assess an entity's exposure to paying top-up tax. However, in these periods, entities are likely to be in the process of assessing their exposure and preparing to comply with the legislation. Therefore, requiring entities to provide

detailed information reflecting the specific requirements of the Pillar Two legislation would either not be feasible or be likely to result in undue cost or effort.

BC20 The IASB sought to identify what information would provide users of financial statements with insights into an entity's potential exposure to paying top-up tax but that would not involve undue cost or effort. Considering this balance of costs and benefits, the IASB proposes [the requirements in paragraphs 88C(a)–(b)].

BC21 Requiring entities to disclose information for the current period prepared in accordance with IAS 12 would be less costly than requiring them to provide information based on the requirements of the Pillar Two legislation. Entities would have access to at least some of the information needed to comply with the proposed requirement in paragraph 88C(b) in applying requirements in IAS 12. For example, in preparing the reconciliation required by paragraph 81(c), an entity determines the accounting profit in jurisdictions with different tax rates to calculate the effects of these different rates (see paragraph 85).

8. Paragraphs BC22–BC23 explain the differing views of some IASB members:

BC22 The Pillar Two model rules include specific requirements that differ from those in IAS 12 in relation to calculating an effective tax rate for each jurisdiction. For this reason, some IASB members were opposed to requiring entities to disclose information prepared in accordance with IAS 12. In their view, such information would not be useful to users of financial statements because it would not be based on the requirements in the Pillar Two model rules and would relate to periods in which the rules are not yet in effect. In their view, such information could also be misleading or commercially sensitive.

BC23 However, a majority of IASB members were of the view that information prepared in accordance with IAS 12 would still be useful to users of financial statements in providing an indication of an entity's potential exposure to paying top-up tax and the jurisdictions in which that potential exposure might exist. Because of the significance of the

Pillar Two model rules, those IASB members viewed it as important that users of financial statements were given some indication of an entity's potential exposure to paying top-up tax.

9. Paragraph BC24 explains the reasons for the proposal in paragraph 88C(c):

BC24 The IASB also proposes to require an entity to disclose whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate there are additional (or fewer) jurisdictions in which the entity might be exposed to paying Pillar Two income taxes compared to those with an average effective tax rate of less than 15% based on the requirements in IAS 12 (paragraph 88C(c)). This information would:

- (a) supplement the information an entity provides in applying paragraph 88C(b);
- (b) indicate whether an entity operates in jurisdictions in which it expects it might be taxed below the minimum rate in accordance with the specific requirements of the Pillar Two legislation; and
- (c) not involve undue cost or effort because it would be required only if an entity has made such assessments.

Summary of feedback

Overall feedback

- 10. Many respondents disagree with the proposals. These respondents include almost all preparers, many accountants and some standard-setters. In general, these respondents say the proposed disclosures would not result in useful information and would require entities to incur significant costs to prepare that information.
- 11. Many respondents agree with the proposals. These include many accountants and standard-setters, all regulators and all investors. These respondents either do not raise concerns or generally agree that the proposals would achieve the IASB's objective of

requiring entities to disclose information that provides insights into an entity's potential exposure to Pillar Two income taxes (Pillar Two exposure) without resulting in undue cost or effort. These respondents nonetheless propose clarifications or improvements.

12. Some respondents neither agree nor disagree but raise similar concerns to those who disagree. In general, these respondents either say it is unclear whether the benefits of providing the information would outweigh the costs or suggest alternative approaches.

Usefulness of the information

13. Many respondents say the information an entity would provide applying the proposals would be useful. These respondents either do not raise major concerns or generally agree that the proposals would achieve their objective (see paragraph 7 of this paper).

14. The IASB received comment letters from two investor groups that support the proposals. For example:

- (a) the European Federation of Financial Analysts Societies (EFFAS) says:

We understand the difficulties for companies in providing detailed information on the new tax requirements particularly in compliance with IAS 12... Information prepared in accordance with IAS 12 and providing an indication of the potential exposure of paying top up taxes and the jurisdictions in which entities will have to adjust their tax payments will be useful.

- (b) the Corporate Reporting Users' Forum (CRUF) says:

Users urgently need to identify which companies are most at risk from the "top-up tax", but under current disclosure this is impossible to do. Users can only screen for companies with an aggregate effective tax rate below 15%, but this will miss a lot of companies exposed to a "top-up tax" because it does not differentiate between a company paying tax in a single jurisdiction with a 15% tax rate which is not at risk, and a company paying tax in two jurisdictions, one with a 30% tax rate and one with a zero tax rate, which is at risk.

The proposed disclosure described in paragraph 88C (b) is an elegant temporary solution to this information gap, allowing users to estimate the potential “top-up tax”. These quantitative requirements should be considered the absolute minimum information required. Without this quantitative disclosure there is a grave risk of a misallocation of capital as investors make ill-informed decisions. The CRUF appreciates that preparers will be cautious in disclosing these aggregate numbers, due to their uncertainty. However, there are lots of other areas in the financial reports which necessarily deal with uncertainty, such as pension obligations and provisions, and in all cases disclosing and discussing the key assumptions is important so that users can flex the reported estimate with their own assumptions. The CRUF also understands the large potential for mitigating actions, by both countries and companies, which means that any estimate of the potential “top-up tax”, based on the aggregate accounting profits multiplied by the difference between the average effective tax rate and 15% is likely to be significantly larger than the estimate of the most likely “top-up tax” after all mitigating actions are taken into account.

15. CRUF also says the information would be more useful if required country-by-country rather than in aggregate. That would better allow investors to understand risks inherent in current tax structures.
16. However, many respondents say the information would not—or might not—be useful. They say the information:
 - (a) could be a ‘poor proxy’ of an entity’s Pillar Two exposure, and therefore would not be useful in providing insights into such exposure; and
 - (b) would have low or no predictive value and could be misleading in many cases.
17. Most of these respondents say this is because of the differences between the basis for calculating:
 - (a) the effective tax rates applying IAS 12 (IAS 12 ETR); and
 - (b) the effective tax rates applying the Pillar Two requirements (Pillar Two ETR).

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18. Although accounting profit and income tax expense are the starting points for calculating *covered taxes* and *GloBE income or loss*, the Pillar Two model rules require an entity to make several adjustments that could result in material differences between the IAS 12 and Pillar Two ETRs.¹ Respondents mention the following examples of such adjustments:
- (a) dividend income, capital gain subject to a local participation exemption and current tax expense related to uncertain tax positions are excluded from Pillar Two ETR;
 - (b) reattribution of taxes paid under Controlled Foreign Company (CFC) and Global intangible low-taxed income (GILTI) regimes to overseas jurisdictions;
 - (c) allocation of purchase price adjustments (PPA) between entities; and
 - (d) differences in the treatment of deferred tax expenses—for example, the effect of remeasuring deferred tax due to tax rate changes (excluded from Pillar Two ETR) and recapturing deferred tax liabilities (included in Pillar Two ETR).
19. Respondents also mention the following features of the Pillar Two model rules that affect an entity’s Pillar Two exposure but that are not reflected in the information required by proposed paragraph 88C(b):
- (a) the effect of the *substance-based income exclusion*, which reduces an entity’s exposure to top-up tax even when the Pillar Two ETR is below 15%;
 - (b) the exclusion of *de minimis* jurisdictions and some types of entities from the scope of the rules; and
 - (c) the effects of applying transition safe harbours in transition periods.²

¹ Paragraph 10 of Agenda Paper 12 for this meeting explains the meaning of *covered taxes* and *GloBE income or loss*.

² In December 2022, the OECD published [guidance](#) on Safe Harbours and Penalty Relief. These include terms that effectively removes the obligation of calculating the Pillar Two effective tax rate for operations in lower-risk jurisdictions in the initial years. In particular, the transitional Country-by-Country Report (CbCR) Safe Harbour allow entities to exclude from the Pillar Two calculation jurisdictions that pass at least one of three tests based on data from a qualified Country-by-Country report: (a) a *de minimis* test; (b) a simplified ETR test; and (c) a routine profits test.

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20. Some respondents also say the information required by paragraph 88C(b) would not be useful in assessing an entity's Pillar Two exposure because:
- (a) it would not reflect mitigating actions an entity may take to reduce its exposure (for example, changing its tax strategy or shifting operations out of low-tax jurisdictions);
 - (b) an entity's ETR in future periods may differ from the current period ETR (for example, there could be exceptional items in the current period);
 - (c) domestic legislation may change as a result of the global implementation of Pillar Two legislation (for example, some jurisdictions may increase their statutory tax rates); and
 - (d) there could be differences in legislation enacted in each jurisdiction and further OECD guidance in the future.
21. Some respondents acknowledge that an entity may provide additional information applying the proposed requirement in paragraph 88C(c) and explain why the IAS 12 ETR could differ from the Pillar Two ETR. However, they disagree that an entity should be required to disclose information based on IAS 12 only to then have to explain why that information might not represent its Pillar Two exposure.
22. Some respondents say some entities might not be able to provide reliable information based on the Pillar Two legislation. For example, Anglo American says:
- Most large groups should theoretically be able to determine (with significant effort and some degree of confidence) whether or not they are likely to suffer material top up tax in a given year or in the future. However, this will not be universally true and even for those groups that can, it may not be possible for them to prove their position beyond doubt. This is largely due to two factors – firstly that all relevant administrative guidance (at both OECD and implementing country level) is not yet available, and secondly that (some of) the data required to compute top ups does not currently exist within accounting systems (or is not easily accessible in the right format to the degree of accuracy required).

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23. A few respondents also say:
- (a) the proposals would require an entity to disclose information unrelated to an entity's deferred tax assets and liabilities arising from Pillar Two legislation—therefore, they are not needed as a consequence of introducing the temporary exception; and
 - (b) it is unclear how naming jurisdictions with an IAS 12 ETR below 15% would be helpful.

Costs of preparing the information

24. Many respondents say preparing the information required by paragraph 88C(b) would be costly and result in additional administrative burden. These respondents say entities are not currently required to report information by jurisdiction; therefore, some reporting systems may be unable to generate information on that basis. In these cases, the proposals would require entities to set up systems, create new processes to collect and prepare the required information at a jurisdictional level and have the information audited. Respondents say such costs would not be justified because an entity would provide the information in only one or two reporting periods.
25. A few respondents also say:
- (a) entities will already be under significant strain from complying with the Pillar Two legislation—the proposals would add to that strain.
 - (b) the Pillar Two model rules allow a longer time for an entity to prepare Pillar Two information and provide some safe harbours that alleviate the burden on entities during a transition period.³ The proposals would run counter to that.
 - (c) although proposed paragraph 88C(c) does not require undertaking further assessments based on the requirements of the Pillar Two legislation, entities would nonetheless be compelled to do so to provide clarifying explanations about the information provided applying proposed paragraph 88B(b).

³ The Pillar Two model rules require entities to file information returns no later than 15 months after the end of the fiscal years (18 months in the transition year).

Comments on specific proposed requirements

26. Respondents raised several comments on the specific requirements proposed in paragraphs 88C(a)–(c). Appendix A summarise those comments.

*Suggested alternatives****Introducing a disclosure objective***

27. Some respondents suggest that, instead of requiring an entity to disclose specific information based on IAS 12, the IASB could require entities to disclose information that meets a disclosure objective. The IASB could base this objective on the explanations in the Exposure Draft—for example, it could require entities to disclose information that helps investors assess an entity’s Pillar Two exposure.⁴ Respondents say doing so would be more principles-based and aligned with the IASB’s *Guidance for Developing and Drafting Disclosure Requirements in IFRS Accounting Standards (IASB Disclosure Guidance)*.
28. Similarly, a few respondents suggest using an approach similar to paragraphs 24I–24J of IFRS 7 *Financial Instruments: Disclosures* (which were introduced as part of the amendments in *Interest Rate Benchmark Reform—Phase 2*). For example, EY says:

... [the approach] provides the objectives of the disclosures (i.e., enable users of financial statements to understand the effect of the reform by providing information about the nature and extent of risks to which the entity is exposed) and then require quantitative information on a basis selected by the reporting entity. As noted in paragraph BC35JJJ of IFRS 7, permitting entities to select a basis on which to provide relevant quantitative information to achieve the disclosure objective would allow entities to leverage information that is already available and, therefore, would reduce the costs of providing the information.

⁴ Paragraph BC20 also refer to ‘information that could provide insights into an entity’s potential exposure to paying top-up tax’.

Using information based on assessments made

29. Some respondents, including some of those that suggest including a disclosure objective, suggest requiring an entity to disclose information based on assessments the entity has made (including an entity's progress in making such assessments). They say such an approach would result in an entity providing more useful, entity-specific information without undue cost or effort because the information would be based on assessments the entity has already made.
30. Respondents express different views about the specific information the IASB should require an entity to disclose. They suggest:
- (a) requiring an entity to disclose an estimate (which can be in the form of a range) of potential Pillar Two income taxes or the expected increase in the entity's effective tax rate. However, a few respondents suggest requiring an entity to disclose information only when it can make a reliable estimate.
 - (b) using an approach similar to the requirements in paragraphs 30–31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and requiring an entity to disclose only known or reasonably estimable information relevant to assessing the effects of Pillar Two legislation. If that effect is not known or reasonably estimable, an entity would disclose a statement to that effect.⁵
 - (c) requiring entities to disclose only qualitative information given the uncertainties and complexities of determining Pillar Two legislation's effects.
 - (d) requiring entities to disclose the information required by proposed paragraphs 88C(b)–(c) when an entity cannot provide information based on the Pillar Two model rules.

⁵ Paragraph 30 of IAS 8 states 'when an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose: (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. Paragraph 31(e)(ii) states that, if that impact is not known or reasonably estimable, an entity discloses a statement to that effect.'

Other suggestions

31. A few respondents suggest:
- (a) not adding specific disclosure requirements. In their view, an entity would already provide information about its Pillar Two exposure in applying the general requirements in IAS 1 *Presentation of Financial Statements*.⁶
 - (b) requiring or allowing an entity to disclose information based on jurisdictions' statutory tax rates (for example, jurisdictions with statutory rates below 15%).
 - (c) requiring an entity to disclose information based on data from Country-by-Country reports for prior periods—for example, a few respondents suggest basing disclosure requirements on the transition safe harbours (see paragraph 19(c) of this paper).
32. A few respondents suggest prioritising finalising the amendments over perfecting the disclosure requirements. For example, KPMG says:
- ... we would like to stress that timely publication of the amendments should take precedence over perfecting the disclosure requirements, as some jurisdictions are currently expected to (substantively) enact Pillar Two model rules in the first quarter of 2023, which could affect interim and annual reporting periods ending well before 31 December 2023.
33. A few respondents suggest requiring an entity to disclose information about uncertainties in the information it discloses.

⁶ For example, paragraph 31 of IAS 1 states that '...an entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in [IFRS Accounting Standards] is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.' Respondents also refer to paragraphs 17(c) and 112(c) of IAS 1, which include similar requirements.

Staff analysis

34. In developing its proposals, the IASB concluded that requiring entities to disclose detailed information reflecting the specific requirements of the Pillar Two model rules (Pillar Two-based information) would either not be feasible or be likely to result in undue cost or effort. The IASB was aware that the Pillar Two model rules include specific requirements that differ from those in IAS 12 in relation to calculating an effective tax rate for each jurisdiction. Nonetheless, the IASB concluded that information prepared in accordance with the requirements of IAS 12 (IAS 12-based information) would still be useful in providing an indication of an entity's potential exposure to top-up tax. The IASB also acknowledged that preparing IAS-12 based information would involve costs, but that doing so would be less costly than preparing Pillar Two-based information.
35. Feedback about the usefulness of IAS 12-based information—as well as the costs of preparing that information—therefore includes much information the IASB considered in developing its proposals. However, feedback indicates that many stakeholders think the benefits of requiring entities to disclose IAS 12-based information would not outweigh the costs of preparing that information.
36. Our analysis considers:
- (a) allowing the use of available Pillar Two-based information (paragraphs 37–41);
 - (b) introducing a disclosure objective (paragraphs 42–45);
 - (c) qualitative and quantitative information (paragraphs 46–49); and
 - (d) disclosures when Pillar Two-based information is unavailable (paragraphs 50–54).

Allowing the use of available Pillar Two-based information

37. Feedback from respondents—including preparers—suggests that some entities might be able and prefer to disclose available Pillar Two-based information. These entities

could use information from assessments they have already undertaken in preparing to comply with Pillar Two legislation. Feedback also suggests more entities might be able to disclose available Pillar Two-based information than the IASB expected when it developed its proposals.

38. While we continue to agree with the IASB’s conclusion that it should not require an entity to disclose Pillar Two-based information if such information is unavailable, we think an entity should be allowed to disclose such information instead of IAS 12-based information to the extent the information is available.
39. In our view, Pillar Two-based information:
- (a) does not need to be compliant in all respects with the specific requirements of Pillar Two legislation to be useful; and
 - (b) can be useful even if it lacks a high level of precision, for example if it were provided in the form of an indicative range.
40. An entity could, for example, use information prepared on a simplified basis that, while not reflecting all specific requirements of the Pillar Two legislation, takes into account features of the legislation that could have the greatest effects on determining an entity’s Pillar Two exposure. For example, an entity’s assessment could take into account the effects of dividend income and available substance-based income exclusion.
41. Consequently, if the IASB were to allow an entity to disclose available Pillar Two-based information, in our view, it should *not* prescribe the basis on which to prepare that information. This approach would allow an entity to use information from its assessments and thus result in disclosing more useful information at a lower cost.

Introducing a disclosure objective

42. Paragraph BC19 of the Exposure Draft explains that, in periods before Pillar Two legislation is in effect, investors need information to help them assess an entity’s Pillar Two exposure. However, the proposals did not include a disclosure objective

based on that information need. This is because meeting such a disclosure objective might have indirectly required an entity to disclose Pillar Two-based information, which the IASB concluded would either not be feasible or be likely to result in undue cost or effort.

43. However, as previously discussed, feedback suggests that an entity might be able and prefer to disclose available Pillar Two-based information. In our view, such an entity might disclose more useful information, at a lower cost, if it is allowed to use available Pillar Two-based information to meet a disclosure objective than if it were required to disclose specified information. (We consider situations where an entity has no available Pillar Two-based information later in this paper.)
44. Therefore, we agree with suggestions to specify a disclosure objective. In our view, doing so would allow an entity flexibility in disclosing information that best meets the disclosure objective—including making materiality judgements—but without resulting in undue cost or effort. Furthermore, most respondents—including those that disagreed with the specific proposals—supported requiring an entity to disclose information that helps investors understand the effects of Pillar Two legislation in periods when such legislation is not yet in effect.
45. Consistent with the explanation in paragraph BC19, in our view, the disclosure objective should be:

In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

Qualitative and quantitative information

46. Proposed paragraph 88C would require entities to disclose specified qualitative and quantitative IAS 12-based information. The IASB concluded that such information would help investors understand an entity's Pillar Two exposure. Despite the views of many respondents on the usefulness of that information, feedback from investors

suggest that the proposals would be useful for that purpose, particularly because the proposals would require entities to disclose quantitative information.

47. We continue to think that an entity should be required to disclose qualitative and quantitative information to help investors understand an entity's Pillar Two exposure. However, instead of specifying what information an entity should disclose, we recommend requiring only that an entity discloses both qualitative and quantitative information to meet the disclosure objective. Not specifying items of information an entity discloses would be consistent with allowing an entity to use available Pillar Two-based information, which may vary from entity to entity.⁷
48. Although we do not recommend specifying items of information an entity discloses, examples of information an entity could disclose include:
- (a) *qualitative information* such as:
 - (i) information about how an entity is affected by Pillar Two legislation; and
 - (ii) the main jurisdictions in which the exposure arises.
 - (b) *quantitative information* such as:
 - (i) an indication of the proportion of an entity's profits that risks being subject to Pillar Two income taxes and the effective tax rate applicable to those profits; or
 - (ii) an indication of the potential effect of the legislation on the entity's overall effective tax rate.
49. We also note that:
- (a) an entity would disclose quantitative and qualitative information about its Pillar Two exposure at the end of the reporting period arising from legislation that has been enacted, but is not yet effective; an entity would not be required

⁷ Paragraph 15 of the IASB Disclosure Guidance states that '... the IASB could decide not to specify items of information if the purpose of a specific disclosure objective were to require an entity to disclose entity-specific information.'

to disclose information about possible future transactions and other possible future events (forward-looking information). For example, an entity would not be required to forecast future profits, reflect mitigation actions it expects to take in future periods or consider possible future changes in tax legislation.

- (b) an entity might conclude it has no material Pillar Two exposure, in which case it could meet the disclosure objective by disclosing this information.

Disclosure when Pillar Two-based information is unavailable

50. The analysis above explains how we think the IASB could revise its proposals to allow entities to use available Pillar Two-based information to disclose information that helps investors understand an entity's Pillar Two exposure.
51. In our view, it is reasonable to expect that many entities will have some such information by the time they are required to apply the proposed requirements. In many jurisdictions, entities would prepare their financial statements during periods in which Pillar Two legislation is already effective. Such entities might have already assessed how they are affected by the legislation and might be preparing to account for these effects in their current tax accounting.
52. Nonetheless, as discussed previously, in our view the IASB should not require an entity to disclose Pillar Two-based information to the extent such information is unavailable. We also acknowledge that, even if some information is available, an entity might not have made sufficient progress in assessing its exposure to be able to disclose information in its financial statements.
53. To identify situations in which an entity would not be required to disclose Pillar Two-based information, the IASB could apply an approach similar to the requirements in paragraph 30–31 of IAS 8—as suggested by a few respondents—and require an entity to disclose information only to the extent such information is known or reasonably estimable. Those requirements are well-understood and address a comparable situation—they require an entity to disclose information relevant to assessing the

possible impact on the entity's financial statements of a new IFRS Accounting Standard that has been issued but not yet effective.

54. Furthermore, to the extent information is not known or reasonably estimable, we think an entity should disclose a statement to that effect. Paragraphs 58–62 of this paper discuss whether the IASB should also require an entity to disclose further information.

Our recommendation for a revised approach

55. Based on our analysis in paragraphs 34–54, we recommend requiring that, for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect:
- (a) an entity disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.
 - (b) in meeting that disclosure objective, an entity disclose known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to be compliant in all respects with 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 should instead disclose a statement to that effect.
56. In our view, this recommended revised approach appropriately balances:
- (a) *investors need for information about an entity's Pillar Two exposure*—this need would be met by a requirement to disclose qualitative and quantitative information about an entity's Pillar Two exposure.
 - (b) *preparers' concerns about disclosing IAS 12-based information*—the revised approach would allow an entity to use known or reasonably estimable Pillar Two-based information in preparing its disclosures, and thus provide more useful information at a lower cost.

Comments on the specific requirements and other aspects

57. In our view, the recommended revised approach in paragraph 55 would resolve most concerns and comments on the specific proposed requirements. Applying this approach:
- (a) an entity would disclose information (including qualitative information) to meet the disclosure objective. In meeting that requirement, an entity would disclose information about how it is affected by Pillar Two legislation. Therefore, in our view it would no longer be necessary to specifically require an entity to disclose information about Pillar Two legislation in which an entity operates (proposed paragraph 88C(a)).
 - (b) an entity would no longer be required to specifically disclose the information in proposed paragraphs 88C(b)–(c).

Possible additional information the IASB could require

58. In addition to the requirements in paragraph 55, the IASB could consider requiring entities to disclose:
- (a) information about progress made in assessing the entity’s exposure to Pillar Two taxes; and
 - (b) IAS 12-based information when there is no known or reasonably estimable information about an entity’s Pillar Two exposure.

Information about progress made in assessing the entity’s exposure to Pillar Two taxes

59. The IASB could require an entity to disclose information about progress it has made in assessing its exposure to Pillar Two income taxes. Such information could be useful in providing context to the information an entity discloses applying the recommended revised approach. However, such a requirement could add complexity and might result in entities disclosing vague or boilerplate information.

IAS 12-based information when there is no known or reasonably estimable information

60. Under the recommended revised approach discussed in paragraph 55, to the extent that qualitative and quantitative information about an entity's exposure at the end of the reporting period is not known or reasonably estimable, an entity would instead disclose a statement to that effect.
61. The IASB could require an entity to disclose IAS 12-based information (such as the information required by the proposals) in these situations. This requirement would have the benefit of always resulting in entities disclosing some quantitative information about their Pillar Two exposure. It would also retain the proposals in the Exposure Draft—with which many respondents agree—as the minimum information an entity would provide, while allowing entities to provide more useful information to the extent available.
62. However, many respondents say IAS 12-based information might not be representative of an entity's exposure to Pillar Two income taxes, and could be misleading in some cases. While some entities could explain why IAS-12 based information might not be representative of their Pillar Two exposure, an entity might not be able to do so if it does not yet have known or reasonably estimable information about such exposure.

Questions 1–2 for the IASB

1. Does the IASB agree with our recommendation in paragraph 55?
2. Does the IASB wish to require an entity to disclose:
 - (a) information about progress made in assessing the entity's exposure to Pillar Two taxes; or
 - (b) IAS 12-based information when there is no known or reasonably estimable information about an entity's Pillar Two exposure?

Periods when legislation is in effect

Proposals in the Exposure Draft

63. The IASB proposes to add paragraph 88B to IAS 12, which would state:
- 88B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.
64. Paragraph BC25 of the Exposure Draft explains the reasons for this proposal:
- BC25 The IASB proposes to require an entity to disclose separately the current tax expense related to Pillar Two income taxes. The IASB concluded that disclosing that information would:
- (a) help users of financial statements understand the magnitude of Pillar Two income taxes relative to an entity's overall tax expense; and
 - (b) not be costly because an entity will be required to recognise current tax related to Pillar Two income taxes.

Summary of feedback

65. Most respondents agree with the proposal. Most of these respondents agree for similar reasons to those explained in paragraph BC25 of the Exposure Draft.
66. However, some respondents—mostly preparers—either disagree or question whether such a requirement is necessary or would result in useful information. These respondents say the proposed requirement is unnecessary because:
- (a) in their view, the information would not be useful; or
 - (b) entities would already disclose that information in applying other requirements in IAS 12 (if amounts are material)—in particular, an entity may disclose such

information as part of its effective tax rate reconciliation or when disclosing major components of tax expense (income) separately.⁸

67. A few respondents say the costs of preparing the information would outweigh the benefits—for example, the CBI says entities would need to put in place additional systems and processes to identify Pillar Two taxes at each entity within the group.
68. Some respondents do not comment on the proposal.

Measurement uncertainty

69. A few respondents note the challenges of estimating current taxes related to Pillar Two income taxes, particularly in the first few years of implementation. They suggest either providing an exception to the current tax accounting requirements or providing practical methods for preparing an estimate.

Staff analysis

70. We continue to agree with the proposal for the reasons explained in paragraph BC25 of the Exposure Draft. In our view, understanding the magnitude of Pillar Two income taxes relative to an entity's overall tax expense is necessary because the entity would not be recognising deferred tax assets and liabilities related to Pillar Two income taxes. The greater the magnitude of such taxes, the higher the potential effect of the missing deferred tax information.
71. In our view, applying existing requirements in IAS 12 would not necessarily result in entities disclosing the current income tax expense related to Pillar Two income taxes. In particular:
- (a) an entity might aggregate the effects of Pillar Two income taxes together with other income taxes in its effective tax rate reconciliation—for example, an

⁸ See paragraphs 79–78 and 81(c) of IAS 12.

entity might include such effects as part of the effect of different tax rates in foreign jurisdictions; and

- (b) paragraph 80 includes ‘current tax expense (income)’ as an example of a component of income tax expense (income)—therefore, an entity might conclude that this paragraph does not require an entity to further disaggregate its current tax expense when disclosing the major components of tax expense (income).

- 72. Finally, we are not persuaded that the costs of preparing the information would outweigh the benefits. Entities would already be required to calculate and recognise current taxes related to Pillar Two income taxes. In our view, separately disclosing such information would not be onerous.
- 73. Therefore, we recommend finalising the proposal to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Measurement uncertainty

- 74. We acknowledge respondents' concerns about the challenges of estimating a current tax liability related to Pillar Two income taxes. However, we do not recommend amending the current tax accounting requirements in IAS 12 at this stage. We also note that, when applicable, entities would apply:
 - (a) the requirements in paragraphs 125–133 of IAS 1 and disclose information about sources of estimation uncertainty around their estimate of Pillar Two current tax liability; and
 - (b) the requirements in IFRIC 23 *Uncertainty over Income Tax Treatments* to the extent that measurement uncertainty relates to uncertainty over income tax treatments.

Question 3 for the IASB

- 3. Does the IASB agree with our recommendation in paragraph 73?

Appendix A—specific comments on proposed paragraph 88C

A1. This appendix summarises respondents' comments on the specific requirements in proposed paragraphs 88C(a)–(b) (see paragraph 6 of this paper).

Proposed paragraph 88C(a)

A2. Most respondents comment on the proposed requirement for an entity to disclose information about Pillar Two legislation enacted or substantively enacted in jurisdictions in which the entity operates (proposed paragraph 88C(a)). These respondents comment on:

- (a) *what information an entity should disclose*—some say it is unclear what specific information an entity should disclose in complying with the proposed requirement. These respondents say this lack of clarity could result in poor, lengthy or boilerplate disclosures, particularly for an entity operating in many jurisdictions. A few respondents suggest explaining:
 - (i) the objective of requiring this information;
 - (ii) what type of information an entity is expected to disclose; and
 - (iii) that entities should not disclose immaterial information in complying with this requirement.
- (b) *the usefulness of the information*—many respondents say the information required by paragraph 88C(a) would not be useful because:
 - (i) an entity would disclose a long list of jurisdictions that have enacted legislation with voluminous boilerplate information about legislation in each of these jurisdictions. Some respondents say preparing this information could be onerous and suggest requiring information only for 'material' jurisdictions. They also note that the information is not entity-specific and would be available publicly.⁹

⁹ For example, ACTEO, Afep and MEDEF say that it is expected that the OECD will communicate publicly a list of jurisdictions that are enacting Pillar Two legislation.

- (ii) information about legislation in some jurisdictions might be irrelevant—for example, the enactment of Pillar Two legislation in the ultimate parent entity’s jurisdiction means that the whole group is affected, so information about legislation in other jurisdictions is irrelevant. Therefore, some respondents suggest requiring this information only for the highest level within the group where legislation has been enacted.

Proposed Paragraph 88C(b)

A3. Some respondents say it is unclear how an entity would apply the requirement to disclose the jurisdictions in which an entity’s effective tax rate (based on the requirements in IAS 12) is below 15%, and the accounting profit, tax expense and average effective tax rate for these jurisdictions in aggregate (paragraph 88C(b)). Their comments relate to the following areas:

- (a) *level of aggregation*—some respondents say it is unclear whether an entity would disclose information:
 - (i) aggregated by jurisdiction—that is, aggregating information of entities operating in each jurisdiction; or
 - (ii) aggregated for all jurisdictions—that is, aggregating information of different jurisdictions.
- (b) *how to calculate the numbers*—some respondents say IAS 12 currently requires disclosing information only on a consolidated basis. It is unclear how an entity would determine accounting profit and income tax expense at a lower level (in specific jurisdictions). For example, respondents say it is unclear:
 - (i) whether an entity discloses a jurisdiction’s accounting profit before or after consolidation eliminations. If after consolidation eliminations, it is unclear whether an entity eliminates only transactions between entities in that same jurisdiction or also between entities in different jurisdictions; and

- (ii) how an entity treats adjustments made only at the group level, such as PPA adjustments.

Proposed Paragraph 88C(c)

- A4. Some respondents say it is unclear what information an entity would disclose when assessments it has made in preparing to comply with Pillar Two legislation indicate that there are more (or fewer) jurisdictions in relation to which it might have Pillar Two exposures (proposed paragraph 88C(c)). In particular, it is unclear whether an entity would simply state that there are more (or fewer) jurisdictions—a ‘yes’ or ‘no’ statement—instead of providing information about the specific jurisdictions.
- A5. Some respondents note that a simple ‘yes’ or ‘no’ statement would be of limited use. Consequently, a few respondents suggest requiring entities to disclose the specific jurisdictions and further quantitative information for those jurisdictions.
- A6. A few respondents also say the proposals:
- (a) would be onerous and create a gap between the information an entity is required to disclose and the information an entity can provide. These respondents say that entities cannot determine precisely the jurisdictions in which they might have Pillar Two exposures.
 - (b) would result in entities providing diverse information. For example, AIA Group Limited says:

The disclosures required by 88C(c) are driven by an entity's impact assessments undertaken. This will result in severe lack of comparability between entities as the basis of these assessments, their rigor, their timing, the assumptions that were made and even whether they are made at all will vary between entities. In fact, an entity that has made no impact assessment (which can be justified due to the uncertainty in forecasting the financial and non-financial data required to calculate the Pillar Two income taxes and the fluidity in the development of the actual rules) needs to make no disclosures.

Appendix B—other comments

B1. The following table summarises other comments together with our analysis and recommendations.

Respondents' comments	Staff analysis and conclusions
<p><i>I. Separate or sub-group financial statements</i></p> <p>Some respondents question whether the proposals would result in useful information in separate financial statements or the consolidated financial statements of intermediate parent entities (sub-group financial statements). For example, respondents note that applying the Pillar Two model rules:</p> <p>(a) a <i>parent entity</i> might be liable to pay top-up tax with respect to low-taxed profits of its subsidiaries. Therefore, disclosing the parent's accounting profit and tax expense in its separate financial statements would not be useful in assessing the parent entity's exposure to top-up tax arising from the low-taxed profits of its subsidiaries.</p> <p>(b) an <i>intermediary parent entity</i> might be liable to pay top-up taxes with respect to profits of entities that are not its subsidiaries—for example, it might pay top-up taxes related to profits of fellow entities in a</p>	<p><i>Addressed by our recommended revised approach</i></p> <p>In our view, these concerns would be addressed by our recommended revised approach (see paragraph 55). Applying that approach, an entity would disclose information that meets the disclosure objective of helping investors understand the entity's Pillar Two exposure. Therefore, a reporting entity would disclose only information relevant to its circumstances, instead of disclosing specified information that might not be relevant.</p>

Respondents' comments	Staff analysis and conclusions
<p>jurisdiction.¹⁰ Furthermore, depending on which jurisdictions implement Pillar Two legislation, top-up tax might be due only at the ultimate parent entity level—therefore, an intermediate parent entity might not have Pillar Two exposures.</p> <p>These respondents suggest clarifying the applicability of the proposals in situations such as the ones described above. In particular:</p> <ul style="list-style-type: none"> (a) a few respondents suggest specifying that the requirements apply only to entities that are legally liable to pay top-up tax in their separate and sub-group financial statements; (b) EY suggests considering scope restrictions similar to those in IFRS 8 <i>Operating Segments</i>, which limit the application of disclosure requirements to entities with traded debt or equity instruments; and (c) SwissHoldings suggests not requiring an entity to disclose information in its separate financial statements. 	

¹⁰ We used the term 'fellow entities' to refer to entities that are part of the group headed by the ultimate parent entity, but that are not direct or indirect subsidiaries of the intermediate parent entity.

Respondents' comments	Staff analysis and conclusions
<p><i>2. Period of transition to Pillar Two legislation</i></p> <p>The proposals in paragraph 88C (see paragraph 6 of this paper) would apply only in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect. A few respondents say different parts of Pillar Two legislation—as well as Pillar Two legislation in different jurisdictions—may become effective at different times. These respondents say it is unclear when the proposals would apply during that transition period. For example, would the proposals continue to apply until <i>all</i> Pillar Two legislation is in effect? Or would the proposals cease to apply as soon as <i>any</i> Pillar Two legislation is in effect?</p> <p>A few respondents suggest:</p> <ul style="list-style-type: none"> (a) clarifying the applicability of the proposals during the transition period—for example, they suggest developing a principle for entities to determine when to disclose the information (which may be more than one period). (b) requiring entities to disclose information also in periods after legislation is in effect. These respondents say the information continues to be relevant in those periods. 	<p><i>Addressed by our recommended revised approach</i></p> <p>Applying our recommended revised approach (see paragraph 55), an entity would disclose information to help investors understand its exposures arising from <i>any</i> Pillar Two legislation enacted but not yet in effect (including a part thereof). Such legislation might create an exposure to Pillar Two income taxes that is not yet reflected in the entity's current period income tax expense (and related income tax disclosures) and about which investors need information.</p> <p>Therefore, in periods in which some—but not all—Pillar Two legislation is in effect, an entity would disclose information about exposures (if any) arising from legislation not yet in effect.</p>

Respondents' comments	Staff analysis and conclusions
<p><i>3. Forward-looking information</i></p> <p>A few respondents say the proposals would require an entity to provide—or is intended to require an entity to provide—forward-looking information about the future effects of Pillar Two legislation. SwissHoldings says entities should be encouraged to disclose such information outside financial statements (as part of their management commentary).</p>	<p><i>We recommend no further change</i></p> <p>We disagree that the proposals would have required an entity to disclose forward-looking information. Instead, the proposals would have required entities to disaggregate current period information.</p> <p>For reasons explained in paragraph 49(a) of this paper, our recommended revised approach would not require an entity to disclose forward-looking information.</p>
<p><i>4. Commercial sensitivity</i></p> <p>A few respondents say the proposals would require an entity to disclose potentially commercially sensitive information, particularly if an entity were required to provide information by jurisdiction. For example, these respondents say disclosing this information could potentially result in unnecessary tax audits if a tax authority unexpectedly sees its jurisdiction in the list of jurisdictions for which an entity's IAS 12 ETR is below 15%.</p> <p>ACTEO, Afep and MEDEF also compare the proposals with the EU public Country-by-Country Reporting Directive, saying the proposals would go</p>	<p><i>Addressed by our recommended revised approach</i></p> <p>The proposals would have required an entity to only identify jurisdictions in which its effective tax rate for the current period (calculated applying IAS 12) was below 15%. The proposals would not have required an entity to disclose the accounting profit and tax rate separately for each of those jurisdiction—an entity would be required to disclose this information only in aggregate for those jurisdictions.</p> <p>In our view, our recommended revised approach would sufficiently mitigate any remaining concerns because entities would have</p>

Respondents' comments	Staff analysis and conclusions
beyond the information entities will be required to disclose publicly when applying such regulation. ¹¹	flexibility in determining how best to disclose information that meets the objective in a way that would not be commercially sensitive.
<p>5. <i>Additional clarifications and guidance</i></p> <p>A few respondents suggest providing further clarifications and guidance on particular aspects. For example, a few respondents suggest developing illustrative examples or educational materials about the disclosure proposals.</p>	<p><i>We recommend no further change</i></p> <p>Given the urgency in finalising the amendments, we recommend not providing further clarifications or application guidance. We will consider drafting suggestions when drafting the final amendments.</p>
<p>6. <i>Tax reporting regulations</i></p> <p>A few respondents say other tax reporting regulations already require entities to provide tax information outside financial statements (for example, the EU public Country-by-Country Reporting Directive). They say the IASB should consider whether such information is necessary in financial statements.</p>	<p><i>We recommend no further change</i></p> <p>In our view, the proposals and our recommended revised approach would require entities to disclose information consistent with the objective of financial statements.¹² An entity would disclose information about its Pillar Two exposure at the end of the reporting</p>

¹¹ We understand entities would be required to report for the first financial year starting on or after 22 June 2024 (but EU Member States can choose to apply the rules early).

¹² Paragraph 3.2 of the *Conceptual Framework for Financial Reporting* states that 'the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources...'.

Respondents' comments	Staff analysis and conclusions
<p>7. <i>Domestic tax changes resulting from the international tax reform</i></p> <p>Paragraph BC 19 of the Exposure Draft states ‘users of financial statements need information to help them assess an entity’s exposure to paying top-up tax’. Swiss Holdings says:</p> <p>(a) this statement is incorrect. In its view, investors need information to help them assess an entity’s exposure to additional taxes following the Pillar Two reforms. Investors are not so concerned about whether those taxes are incurred as ‘top-up taxes’ or arise from other changes in local tax rates and regulations.</p> <p>(b) similarly, proposed paragraph 88B (see paragraph 63 of this paper) might not capture additional taxes an entity pays as a result of jurisdictions changing domestic tax regimes due to the reform (for example, by increasing statutory tax rates). In its view, this could be misleading because it could understate the full effect of the international tax reform.</p>	<p>period (for example, information about an entity’s aggregated income tax expense and accounting profit in some jurisdictions).</p> <p><i>We recommend no further change</i></p> <p>In our view, the disclosure requirements should focus on the exposure to Pillar Two income taxes. Although some jurisdictions may decide to make changes to domestic tax regimes in the context of the international tax reform, in our view, the IASB should not try to expand the scope of the proposals to capture such changes.</p>

Respondents' comments	Staff analysis and conclusions
<p>8. <i>Other comments on disclosures for periods before legislation is in effect</i></p> <p>IOSCO suggest requiring an entity to disclose information about tax legislation that an entity has determined is not Pillar Two legislation and any significant judgments that the entity has made in making that determination—for example, the introduction of a domestic minimum tax that is not deemed to meet Pillar Two requirements.</p>	<p><i>We recommend no further change</i></p> <p>An entity would already disclose information about significant judgements it makes applying the requirements in paragraph 122 of IAS 1.¹³ Given the urgency of finalising the amendments—and the fact that the disclosure requirements would apply to only a limited number of periods—we do not recommend developing further specific requirements.</p>
<p>9. <i>Other comments on disclosures for periods when legislation is in effect</i></p> <p>The ACCA suggest requiring an entity to disaggregate current tax related to Pillar Two income taxes by jurisdiction.</p>	<p><i>We recommend no further change</i></p> <p>We do not recommend requiring such disaggregation. In our view, requiring an entity to disclose income tax information by jurisdiction would be beyond the scope of the proposed amendments. For example, the IASB deliberately proposed that the quantitative information in paragraph 88C(b) be disclosed on an aggregate basis.</p>

¹³ Paragraph 122 of IAS 1 requires an entity to 'the judgements, apart from those involving estimations ... that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Respondents' comments	Staff analysis and conclusions
<p><i>10. Improvements to IAS 12 disclosure requirements</i></p> <p>CRUF lists further improvements the IASB can make to the disclosure requirements in IAS 12 as part of future amendments to the Standard. However, it says it appreciates the urgent nature of the proposed amendments and that the IASB should not delay their finalisation.</p>	<p><i>We recommend no further change</i></p> <p>We acknowledge CRUF's suggestions for improving the disclosure requirements in IAS 12. However, considering broader improvements to disclosure requirements are beyond the scope of the proposed amendments.</p>

Appendix C—feedback from outreach activities

C1. In addition to feedback through comment letters, we obtained feedback from members of the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC).

C2. The following paragraphs summarise that feedback.

Feedback from GPF members

C3. GPF members generally expressed concern with the proposed disclosure requirements set out in paragraph 88B–88C of the Exposure Draft (see paragraph 6 of this paper).

C4. Some said these proposed disclosures would provide little or no useful information to investors or may even lead them to inappropriately assess the effects of Pillar Two model rules.

C5. One member said it would be difficult to prepare information by jurisdiction in the required timescale. For example, there are some adjustments made only at the consolidated level (for example, hedging contracts).

C6. Some said information relating to Pillar Two model rules would likely be forward-looking and should instead be included in management commentary.

Feedback from CMAC members

C7. CMAC members generally expressed support for the proposed disclosures.

C8. CMAC members acknowledged the uncertainty around the implementation of Pillar Two model rules. However, some members said:

(a) it is therefore important that an entity discloses information to help investors assess the effect of Pillar Two model rules on the entity’s effective tax rate and how sustainable that rate is; and

(b) quantitative information is important to achieve that objective.

- C9. A few said they would prefer if an entity discloses the proposed information on a country-by-country basis.
- C10. One member expressed concerns about potentially requiring an entity to only disclose information based on assessments the entity has made in preparing to comply with Pillar Two legislation. That member said such a requirement could make it less likely that entities would provide information.