



Brussels, 10<sup>th</sup> March 2023

**EACB comments the IASB's Exposure Draft  
"International Tax Reform – Pillar Two Model Rules"**

The EACB welcomes the opportunity to comment on the IASB Exposure Draft (ED) "International Tax Reform—Pillar Two Model Rules" (proposed amendments to IAS 12 *Income Taxes*).

EACB appreciates IASB's efforts to find a balanced compromise between the information needs of the users to evaluate entity's potential exposure to paying top-up tax and costs and efforts considerations. While in general we agree with the proposals set out in this ED, there is however a number of important issues that EACB members would like to underline. Please see below our answers to the specific questions on which IASB seeks stakeholders' feedback.

**Q1 - Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)**

*IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.*

*The IASB proposes that, as an exception to the requirements in IAS 12, an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.*

*The IASB also proposes that an entity disclose that it has applied the exception.*

*Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB's rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.*

As for the proposed amendments to the scope in para. 4A, EACB agrees with the IASB proposal to introduce a temporary mandatory exception to the requirements in IAS 12 *Income Taxes*, in accordance with which an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. We also support the proposed amendment on disclosure in para. 88A, whereby an entity shall disclose that it has applied the above exception.

While we understand the reasons provided in para. BC17 of Basis for Conclusions for the IASB not specifying how long the temporary exception would be in place, we are of the view that such exception should have limited duration. Given the absence of an end date for the exception introduced by these amendments, EACB suggests that IASB could consider setting the earliest date on which it will reconsider to terminate the exception, in order to allow reporting entities sufficient time to prepare for the removal of the exception.

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**Q2 - Disclosure (paragraphs 88B-88C)**

*The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity 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 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) 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 the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or*

*(ii) not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.*

*The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.*

*Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB's rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.*

(a) We agree that the reporting entity should disclose information about jurisdictions subject to enacted Pillar Two legislation. However, to avoid undue cost and efforts in the limited timeframe, we would be in favor of disclosing information only about the material jurisdictions for the entity.

(b) Given that the reporting requirements in IAS 12 *Income Taxes* do not differentiate between various jurisdictions and thus branches of an entity in these jurisdictions are not reported separately, the Pillar Two model rules cannot be enabled until the technical requirements for calculating an effective tax rate for each jurisdiction are in place. We believe that during this transition period the data based on the Country-by-Country Reporting (CbCR) could be used. EACB also urges IASB to clarify the meaning of "accounting profit" for the jurisdictions.

(c) As mentioned in the above paragraph, due to the lack of technical requirements, it would only be feasible to roughly estimate a global tax rate before the Pillar Two legislation came into force (e.g., because of known prior year losses not reported in CbCR). Generally, Pillar Two taxes can only be determined once the accounting period is substantially closed. The complexity of the calculation process further consists in IFRS accounting details aggregated by country and non-consolidated entities added, prior to starting the calculation of GloBE Income, Covered Taxes and ETR. Therefore, we would suggest deleting the paragraph 88C.c) requirements.



In general, and even after the entry into force of the legislation, we do not see any specific added-value in providing too detailed quantitative information about tax expenses, including Pillar Two income taxes, in the financial statements.

**Q3 - Effective date and transition (paragraph 98M)**

*The IASB proposes that an entity apply:*

*(a) the exception—and the requirement to disclose that the entity has applied the exception—immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and*

*(b) the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.*

*Paragraphs BC27–BC28 of the Basis for Conclusions explain the IASB’s rationale for this proposal.*

*Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.*

(a) We agree with the IASB’s proposal.

(b) We would recommend that the application date be postponed, and to not apply to the financial statements relating to the 2023 reporting year, as it will be difficult to produce those disclosures in such a short notice. In addition to practical inability to accurately determine a global tax rate in the financial statements as of 31 December 2023, we would like to point out that there is no room for a retrospective application of disclosure requirements outlined in para. 88B-88C of the ED for annual reporting periods ending prior to 1 January 2024. Indeed, as long as Pillar 2 is not in effect, there should be no top up tax accounted in the consolidated statements. Thus in our point of view, there should be no point of disclosing information related to the Pillar 2 effects on deferred taxed. Also, as pointed out in our answer to question 2, we would rather focus on qualitative information.

Moreover, we would like to point out that postponing the IASB amendment effective date should mitigate the negative consequences of the disclosure requirements outlined in para. 88B-88C, for the countries where Pillar 2 is in effect as from 1 January 2024 (i.e., EU entities among others):

- the additional administrative cost generated by the assessing works should be limited, since as from 2024, entities should have assessed the amount of the due top up tax,
- the confidentiality issues should be limited.

Indeed, information prepared in accordance with IAS 12 might not be sufficient to provide the accounting profit and tax expense of the jurisdictions in which the ETR is below 15% (i.e. Q2 – b). To comply with this requirement, data from CBCR might also be used and thus published. However, these are data that must be provided to tax administrations only and not to the public.



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