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Dear Accounting and Reporting Policy team,

Mazars LLP's response to FRED 83

Mazars LLP is the UK firm of Mazars, an international, integrated and independent organisation specialising in audit, accountancy and advisory services. We welcome the publication of 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* and are pleased to submit our response.

Mazars operates as a truly internationally integrated partnership in 95 countries and territories, with 47,000 professionals. In the UK, Mazars is among the largest firms in its sector and a leading auditor to Public Interest Entities (PIEs). It employs over 2,500 people in 15 locations across the UK, providing a balanced perspective and empowered expertise to clients of all sizes, from individuals and SMEs to mid-caps and global players, as well as start-ups and public organisations at every stage of their development.

General remarks

We concur with the proposed temporary exceptions in relation to the recognition, measurement and disclosure of deferred taxes related to Pillar Two legislation.

We recommend that the FRC revisits the proposed disclosure requirements for the period when Pillar Two legislation has been enacted or substantially enacted but is not yet effective. We suggest that only qualitative disclosures to explain the possible effects of the new legislation are mandated. We also suggest that qualifying entities should only be required to provide qualitative disclosures.

We largely concur with the effective date proposals made by the FRC but suggest that all mandated exceptions should be applied from the same date.

We urge the FRC to finalise the amendments before the UK tax legislation is enacted. It would also be helpful if the FRC outlined how and when it will respond to the remaining accounting issues raised by stakeholders in relation to Pillar Two legislation and the removal of the temporary exceptions.

Please find our detailed responses to your questions in the Appendix to this letter.

Your sincerely,

Mazars LLP

Appendix:

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 has proposed to define the following three new terms, 'average effective tax rate', 'Pillar Two income taxes' and 'Pillar Two legislation'. The IASB has not included the latter two terms as definitions in IAS 12 *Income Taxes*. Given that these proposals are temporary in nature and apply to a specific issue we prefer the IASB's approach and would suggest not to include those terms in the glossary. To ease reference to the requirements the paragraph explaining these terms could be presented together with the respective disclosure requirements in a separate part of Section 29 *Income Tax*, which can be deleted when the temporary exceptions are being removed.

If the FRC were to include these terms in the glossary as defined terms, we suggest that for clarity 'Pillar Two legislation' is being defined *as "enacted or substantively enacted tax law designed to implement the Pillar Two model rules …".* These amendments would clarify that tax laws not yet enacted do not fall within the new requirements and they widen the scope so that, as discussed in paragraph 6 of the Basis for Conclusion, the definition would also capture tax laws that go beyond the OECD requirements.

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 believe that the proposal to extend the exception to the measurement of deferred taxes is useful, but we would suggest that this exception is included in proposed paragraph 29.2B for easier reference.

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?

Proposed paragraph 29.28

It is not clear to us why this disclosure is needed. In our view the disclosures required by paragraph 8.5 of FRS 102 should provide users with the information on how an entity has accounted for Pillar Two income tax, which in our view is the relevant disclosure for the financial statements. Additional disclosures may be provided under paragraphs 8.6 and 8.7 of FRS 102 in relation to judgements and estimation uncertainties, respectively. A reference to these disclosure requirements could be helpful.

If the FRC were to retain this disclosure requirement, we suggest that it is redrafted and "expects" is deleted so that the disclosure applies when an entity is within the scope of enacted or substantively enacted Pillar Two legislation. As drafted the requirement could be misunderstood to be applicable even when Pillar Two legislation has not yet been finalised.

Proposed sub-paragraph 29.26(g)

We concur with this disclosure requirement on the basis that entities have to disclose the same information under amended IAS 12. Nevertheless, over time it will be more difficult to separate Pillar Two income tax expense from other income tax expense and the disclosure may become less relevant for users. We would therefore prefer if this disclosure requirement could be included with the other Pillar Two model rules disclosures, so it can be removed when the temporary exceptions end.

Proposed paragraph 29.29

Similar disclosures had been proposed by the IASB, but stakeholders expressed doubts whether these disclosures would be useful and cost effective to produce. The IASB has replaced these specific disclosure requirements with a disclosure objective asking entities to present information that help users of financial statements understand the entity's exposure to Pillar Two income taxes arising from Pillar Two legislation.

We recommend that the FRC adopts a similar, objective based approach when developing its disclosure requirements. However, whilst the IASB has mandated qualitative and quantitative information, we believe given the reservations around quantitative disclosures, the FRC should only mandate qualitative disclosures. Entities may quantify the impact to achieve the disclosure objective, but they should not be required to do so. Apart from the measurement uncertainties in quantifying the impact, in our view there is a negative cost/benefit trade-off. Quantitative disclosures could impose a significant compliance burden, as we expect that transitional requirements under the tax laws will not require equivalent calculations until after they would need to be produced for disclosure in the financial statements. The predictive value of quantitative information could also be low when based on current year accounting profits.

In the question above the FRC is seeking feedback on whether the proposed disclosures will enable users of financial statements to understand a '*group's*' potential exposure to paying top-up tax. It is not clear whether this implies that the disclosures in proposed paragraph 29.29 are intended to apply to consolidated financial statements. If such disclosures would only be required in consolidated group financial statements, then this should be clarified in the requirement. We note that Pillar Two legislation could affect ultimate parent entities, intermediate parent entities and individual entities in a group and therefore could be relevant for entities that do not produce consolidated financial statements.

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??

FRS 102

We have suggested that the FRC reconsiders the disclosure requirement in proposed paragraph 29.29 and replaces it with an objective led requirement more aligned with that in amended IAS 12, but without a requirement to quantify the impact. If this suggestion would be incorporated into FRS 102, we do not believe that qualifying entities should be exempted from this disclosure. Qualifying entities are not usually exempt from income tax disclosures and we are not convinced they should be in relation to Pillar Two income taxes.

FRS 101

The IASB has replaced the detailed disclosure requirements of proposed paragraph 88C with a disclosure objective, but requires quantitative disclosures. As suggested for FRS 102, we recommend that qualifying entities should only be required to make qualitative disclosures about their exposure to Pillar Two income taxes.

Question 5:

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

The exception from the requirement to recognise and disclose deferred taxes is proposed to be effective immediately with retrospective application required. It is not clear from the proposals why the exception from measurement of deferred taxes is not mandatorily applicable from the same date. We would recommend that all exceptions apply from the same date.

We would suggest that the FRC considers a situation when the amendments to FRS 102 are issued, but Pillar Two legislation has not yet been enacted or substantially been enacted. In this case an entity should only be required to apply the exceptions from the date the Pillar Two legislation is enacted or substantially enacted, not the date the amendments are issued.

In Question 3 above we have suggested an alternative to the disclosures proposed in paragraph 29.28. We believe an entity should make that disclosure in the annual financial statements issued after the date these exceptions became effective. The FRC should consider providing an explicit disclosure exemption for interim financial reports published on or before 31 December 2023, as provided for in IAS 12.

We concur with the proposal to make the other disclosures mandatorily effective for accounting periods beginning on or after 1 January 2023.

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?

In respect of the proposed disclosure requirements in paragraph 29.29 (b) and (c) we have doubts whether the costs of producing these disclosures would outweigh the benefits. We have concerns about the usefulness of that information and believe the predictive value of the information is low and could be misinterpreted.

We therefore believe it would be a more cost-effective solution to adopt an objective led disclosure requirements as adopted by the IASB, but without the requirement to quantify the impact.

We note that the exceptions are intended to be temporary in nature and it would be helpful if the FRC could outline its future plans to address the accounting for Pillar Two income tax. Stakeholders have asked the IASB for clarification on whether Pillar Two top-ups are income tax in the scope of IAS 12 and how Pillar Two legislation affects the accounting for deferred tax. Similar questions arise under FRS 102.