

International Accounting Standards Board
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Japanese Bankers Association

Comments on the International Accounting Standards Board’s Exposure Draft
International Tax Reform—Pillar Two Model Rules

The Japanese Bankers Association (the “JBA”)¹ is pleased to provide comments on the Exposure Draft *International Tax Reform—Pillar Two Model Rules* (the “ED”) published by the International Accounting Standards Board (the “IASB”).

The JBA appreciates the work of the IASB and this public consultation and would like to express our views on several issues related to the disclosure requirements.

Answers to specific questions

Question 2—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

¹ The Japanese Bankers Association is an organization that represents the banking industry in Japan. Its members are banks and bank holding companies operating in Japan.

- (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.

1. Disclosure in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect

a. Objection to disclosure requirements

The JBA requests that the IASB remove the requirement to disclose the jurisdictions in which the entity’s average effective tax rate for the current period is below 15% from the ED. In the JBA’s view, the disclosure would not provide useful information to users of financial statements, could be misleading to users and will likely result in additional costs for the preparers.

The purpose of the disclosure of such jurisdictions is to provide useful information to users of financial statements for estimating future top-up tax. In periods before Pillar Two legislation was in effect, taking into consideration the possibility that tax systems may be revised in each jurisdiction or the entity may change its tax strategy, the entity’s average effective tax rate and the basis for its calculation are not useful for estimating future top-up tax. Our concern is that such information may mislead the users of financial statements. In addition, in light of the fact that IAS 12 does not require disclosure of jurisdiction-specific information and top-up taxes are calculated based on model-specific complex calculations, additional significant costs may be incurred for disclosure in periods before Pillar Two legislation is in effect.

b. Clarification of the calculation of tax rates for each jurisdiction

If the requirements regarding disclosure mentioned above should not be removed from the ED, we request the IASB to clarify that disclosure is not required in the following case:

- when the total amount of taxes is calculated, as is the case in Japan, based on the worldwide income of the entity, and
- if the entity’s average effective tax rate is 15% or more as a result of adding the additional tax payments in the home country to the tax amount paid by foreign branches.

In Japan, tax payments are calculated based on aggregated worldwide income. This means that even if a foreign branch is located in a jurisdiction with a statutory effective tax rate of less than 15%, the difference between the effective tax rate in Japan and that of the foreign jurisdiction will be taxed in Japan. In such a case, it would be appropriate to determine whether disclosure is required or not based on whether the entity's average effective tax rate is above or below 15%, after considering tax payments in the home country (allocated to each jurisdiction).

However, the ED only states that the tax rate of an entity shall be based on the calculation of the "average effective tax rate" as defined in paragraph 86 of IAS 12, and the provision does not define the detailed calculation method. Therefore, if an entity interprets the requirement to mean that the entity's average effective tax rate shall be calculated based only on taxes paid by foreign branches, the entity may disclose the tax rate and expense even though it is not actually required to do so. As a result, disclosure may deviate significantly from the actual situation in Japan, which may be misleading to users of financial statements.

2. Separate disclosure of current tax expense (income) for periods in which Pillar Two legislation is in effect

We believe that the separate disclosure of current tax expense (income) for periods in which Pillar Two legislation is in effect is of little significance in terms of its relevance for the purpose of introducing the Pillar Two model rule and its usefulness in providing information to investors, and therefore, considering the cost of disclosure, we request that the IASB remove the requirement from the proposed ED.

The purpose of the Pillar Two model rule is to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate. This purpose will be achieved when the Pillar Two model legislation comes into effect in each jurisdiction and is therefore irrelevant to disclosing the breakdown of tax expense (income) after it comes into effect.

From the perspective of investors, information on the future impact of Pillar Two legislation may be useful to some extent before the Pillar Two legislation comes into effect if its impact could be estimated. On the other hand, the usefulness of information on the impact of the Pillar Two model after the legislation comes into effect is not considered to be high and is not commensurate with the cost of disclosure in practice, including the time required to gather the information, the effort required to prepare the disclosure and the cost of auditor review.

(End)