Applying IFRS

International Tax Reform — Pillar Two disclosures in practice

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EY

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Contents

What you need to know

- The Amendments to IAS 12 introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the OECD's Pillar Two Model Rules.
- Where an entity publishes condensed interim financial statements in its interim report, the information regarding the application of the mandatory exception is required in the condensed interim financial statements, unless the entity already disclosed its application of the mandatory exception in its previous annual financial statements.
- The principles in paragraphs 15 and 16A of IAS 34 – regarding significant new information – apply to the disclosure of Pillar Two current tax expense, and disclosure of qualitative and quantitative information about an entity's exposure to Pillar Two income taxes in condensed interim financial statements prepared for interim periods ending after 31 December 2023.
- Entities are still estimating the impact of Pillar Two legislation on their financial statements and have identified a significant level of complexity that results from enacted legislation and future (substantive) enactment of legislation in some jurisdictions.

1. Background

In May 2023, the International Accounting Standards Board (the IASB or the Board) issued *International Tax Reform –Pillar Two Model Rules – Amendments to IAS 12* (the Amendments). The Amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the Pillar Two model rules and requires new disclosures about an entity's exposure to income taxes arising from the Pillar Two model rules. Our publication, issued in May 2023, IFRS Developments Issue 218, *Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules* provides further guidance on the application of the mandatory temporary exception.

Our November 2023 publication, Applying IFRS *International Tax Reform – Pillar Two Disclosures,* provides examples of different ways in which an entity could comply with the disclosure requirements introduced by the Amendments. It also proposes a number of building blocks that could be considered in developing disclosures that help users understand the impact of Pillar Two.

This publication takes the next step and includes illustrations from published annual and interim financial statements of entities that have disclosed information regarding Pillar Two income taxes.

It provides a high-level overview of the Pillar Two model rules in section 2. Section 3 provides a summary of the requirements introduced by the Amendments and the application of these requirements in interim financial reports. Section 4 discusses each of the disclosure requirements that were introduced by the Amendments and provides illustrations from published annual and interim financial statements.

Extracts from financial statements presented herein are reproduced for illustrative purposes. They have not been subject to any review as to their compliance with IFRS or any other requirements, such as local capital market rules. Thus, they document practices that entities have developed to date; they are not intended to represent 'best practice'. The extracts presented should be read in conjunction with the rest of the information provided in the financial statements to understand their intended purpose.

2. Pillar Two model rules: an overview

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy. BEPS Pillar Two model rules apply to multinational enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements.

The Pillar Two Global anti-Base Erosion rules (GloBE Rules or Pillar Two model rules) introduce four new taxing mechanisms under which MNEs would pay a minimum level of tax (Minimum Tax):

- The Qualified Domestic Minimum Top-up Tax (QDMTT)
- The Income Inclusion Rule (IIR)
- The Under Taxed Payments/Profits Rule (UTPR)
- The Subject to Tax Rule is a tax treaty-based rule that generally proposes a Minimum Tax on certain cross-border intercompany transactions that otherwise are not subject to a minimum level of tax

The new taxing mechanisms can impose a Minimum Tax on the income arising in each jurisdiction in which an MNE operates. The QDMTT, IIR and UTPR do so by imposing a Top-up Tax in a jurisdiction whenever the effective tax rate (ETR), determined on a jurisdictional basis under the GloBE Rules, is below a 15% minimum rate (Minimum Rate).

The GloBE Rules set out the mechanics for determining which entity (or entities) in an MNE Group (i.e., a group in which the ultimate parent entity has, directly or indirectly, at least one foreign subsidiary or a permanent establishment) would apply the QDMTT, IIR and/or UTPR, and the portion of Minimum Tax that is charged to each relevant entity. While the framework for the GloBE Rules is global, the GloBE Rules would be implemented through legislation enacted in jurisdictions that adopt the rules.

The GloBE Rules are complex and contain complicated terminology that is not discussed in detail in this publication. The OECD has published GloBE Model Rules, GloBE Model Rules Commentary, and GloBE Model Rules Examples, which can be found on their website. In addition, the OECD has published a summary, fact sheets, frequently asked questions, and press releases that provide additional information on the GloBE Rules. We have published an executive summary and discussion of GloBE Model Rules, Commentary and Examples, which provides helpful context and further explanation of the GloBE Rules. There remain numerous areas of uncertainty in the application of the GloBE Rules that require additional interpretive guidance.

For more information on the background of the OECD's project, please refer to our publication, IFRS Developments 203, OECD BEPS Pillar Two – Global Anti-Base Erosion Rules: Accounting implications published in July 2022.

3. Amendments to IAS 12

The IASB amended IAS 12 *Income Taxes*, to address Pillar Two income taxes, for the following reasons:

- To provide timely relief for affected entities
- To avoid diverse interpretations of IAS 12 developing in practice
- To improve the information provided to users of financial statements before and after Pillar Two legislation comes into effect

The Amendments introduce:

- A mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, before its effective date (see section 4 below).

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The disclosure requirements, in relation to periods in which Pillar Two legislation has been enacted but is yet to take effect for the entity, apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

3.1 Applying the Amendments in interim financial reports

IAS 34 *Interim Financial Reporting* was not consequentially amended to reflect the new requirements introduced by the Amendments. Accordingly, the general principles and requirements in IAS 34 also apply to requirements in IAS 12 related to Pillar Two income taxes.

IAS 34 requires an entity to use the same accounting policies and methods of computation in its interim financial statements as in its most recent annual financial statements, adjusted for changes that will be made in the next annual financial statements.

Paragraph 16A(a) of IAS 34 requires entities to apply the same accounting policies and methods of computation in the interim financial statements as compared to their most recent annual financial statements or, if those policies or methods have changed, to describe the nature and effect of the change. Accordingly, in the first set of interim financial statements published applying a new accounting policy or method an entity is required to disclose the nature and effect of the change in the policies or methods including a description of the new accounting policy or the method adopted.

Furthermore, paragraph 15 of IAS 34 requires an entity to '… include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.'

How we see it

In our view, where an entity publishes condensed interim financial statements in its interim report, the information regarding the application of the mandatory exception, needs to be included in the condensed interim financial statements, unless the entity already disclosed its application of the mandatory exception in its previous annual financial statements. The principles in paragraphs 15 and 16A of IAS 34 would apply regarding disclosure of the Pillar Two current tax expense, and disclosure of qualitative and quantitative information about an entity's exposure to Pillar Two income taxes, except in condensed interim financial statements prepared for interim periods ending on or before 31 December 2023. Where an entity publishes complete financial statements in its interim financial report, the requirements in IAS 1 *Presentation of Financial Statements* would apply.

3.2 Estimating Pillar Two taxes in interim financial reports

Taxation is one of the most difficult areas of interim financial reporting, primarily because IAS 34 does not clearly distinguish between current and deferred income tax expense, referring only to 'income tax expense'. Furthermore, IAS 34 requires an entity to calculate an 'estimated average effective income tax rate' that is applied to the pre-tax income of the interim period. However, the standard does not provide specific guidance on determining an 'estimated average effective income tax rate' in the context of Pillar Two taxation that is to be applied to the pre-tax income of the interim period. As IAS 34 is silent on how to deal with multiple tax regimes applicable to the same income, IAS 34 does not strictly rule out an approach whereby an average effective income tax rate is estimated for the regular income tax and Pillar Two tax combined.

How we see it

We recommend to separately estimate Pillar Two income taxes at a more granular level in interim periods because:

- The estimated regular income tax rate needs to incorporate both current and deferred taxes, while the estimated Pillar Two rate only considers current tax.
- The Pillar Two current tax depends, in part, on when gains/losses are realised and is, therefore, more sensitive to cut-off effects than regular income taxes under IAS 12.
- Pillar Two minimum taxes may be due even when a jurisdiction or (sub)group is not profitable.
- The simplification benefits of estimating a combined regular income tax plus Pillar Two income tax, could easily be outweighed by inconsistencies arising from the mismatches between their recognition and measurement.
- Paragraph 88B of IAS 12 requires separate disclosure of the Pillar Two current tax expense in annual financial statements.

4. Pillar Two disclosures

The Amendments have added paragraphs 88A to 88D that require information an entity provides to users of financial statements before and after the Pillar Two legislation is in effect. The following sections discuss each of these requirements and provide illustrations from published annual and interim financial statements.

4.1 Disclosure of application of the exception

The Amendments, immediately and retrospectively upon issue, require an entity to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Extract from IAS 12	
88A	An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).

In illustration 1 below, ASML Holding NV discloses the adoption of the Amendments in the income tax note to its financial statements. ASML describes the mandatory temporary exception, which applies retrospectively, and the fact it has applied the amendment at year-end.

Illustration 1: ASML Holding NV (2023) **Netherlands**

Notes to the Consolidated Financial Statements [extract]
21. Income taxes [extract]
Global minimum tax

We have adopted the 'International Tax Reform - Pillar Two Model Rules (amendments to IAS12)'. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately and require new disclosures about the Pillar Two exposure.

The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted at December 31, 2022 in any jurisdiction in which we operate and no related deferred tax was recognized at that date, the retrospective application has no impact on our Consolidated Financial Statements.

The group monitors its impact to the global minimum tax rules for when it comes into effect on a regular basis. An assessment of the impact has been performed as if the global minimum tax had been applied in 2023. The assessment shows that the tax might have applied to profits relating to the group's operations in the Netherlands, Ireland, Hong Kong and the US. The profits relating to these operations that would be subject to a potential top-up tax amount to € 7.3 billion, with an average effective tax rate applying to these profits of 14.4% (before application of substance based carve out).

Illustration 1: ASML Holding NV (2023) (cont'd)	Netherlands

However, although for 2023 the effective tax rate for global minimum tax purposes for the respective countries is below 15%, we don't expect to be subject to paying global minimum taxes in relation to Ireland and the Netherlands. This is due to the expected increase in Irish effective tax rate to 15% as of 2024. For the Netherlands the main driver is the impact of the renewed innovation box agreement concluded with the Dutch tax authorities applicable as of 2024.

With regard to Hong Kong we also expect the potential exposure to be remote given the cease of (the already limited) activities.

With regard to the US, the quantitative impact is yet still difficult to estimate as the ETR for global minimum tax purposes is highly impacted by the movement in temporary differences on contract assets/liabilities and corresponding recalculation of deferred tax. As such movements in contract assets/liabilities balances are not yet known for coming years and highly dependent on future business transactions to take place, a reliable estimate cannot yet be made. Overall impact on group ETR however, is currently expected to be limited.

In illustration 2 below, Holcim Ltd discloses the adoption of the Amendments as part of its accounting policies note. Holcim describes some of the reasons that led the IASB to introduce the mandatory temporary exception and the fact it has applied the Amendments at year-end.

Illustration 2: Holcim Ltd (2023)	Switzerland

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [extract]
1. Accounting policies [extract]
1.2 Adoption of new and amended IFRS Accounting Standards [extract]

Amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) published the Pillar Two model rules. These are aimed at ensuring that large corporate groups are subject to a minimum taxation at a 15 percent rate in each jurisdiction where they operate. The Group is in the scope of the Pillar Two Model Rules and has adopted the amendments to IAS 12 (note 8).

It is unclear if the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. In response to this uncertainty, on 23 May 2023 and 27 June 2023, respectively, the IASB and AASB issued amendments to IAS 12 'Income taxes' introducing a mandatory temporary exception to the requirements of IAS 12 under which a company does not recognize or disclose information about deferred tax assets and liabilities related to the proposed OECD/ G20 BEPS Pillar Two model rules. The Group applied the temporary exception at 31 December 2023.

How we see it

The introduction of the mandatory temporary exception from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes introduces a new accounting policy. Hence, we believe that the disclosure required by paragraph 88A is usually best presented alongside the accounting policies for income taxes. However, entities that have included a separate note or section on Pillar Two income taxes may wish to include this disclosure there.

The IASB did not provide further clarifications about when a Pillar Two top-up tax is considered to be an income tax in the scope of IAS 12, nor to require entities to treat all top-up taxes as if they were income taxes. An entity is, therefore, required to apply judgement in determining which top-up taxes it considers to be income taxes in the entity's circumstances.

The Board noted that the stakeholders were generally of the view that Pillar Two top-up tax is an income tax and, therefore, within the scope of IAS 12 in the consolidated financial statements of the ultimate parent entity of a group subject to the Pillar Two model rules. However, stakeholders noted that this view does not necessarily apply in the financial statements of intermediate parents and subsidiaries of an MNE group that is subject to the Pillar Two model rules. For example, when those subsidiaries may need to pay top-up taxes under the UTPR mechanism in respect to a fellow subsidiary's profits and the top-up tax allocation is not necessarily in direct proportion to the subsidiary's ownership interest in its investees.

How we see it

We believe that intermediate parents and subsidiaries of an MNE group need to apply judgement in determining whether or not in a particular situation a top-up tax meets the definition of an income tax in IAS 12 and disclose those judgements in accordance with IAS 1.

If an entity concludes that Pillar Two taxes are outside the scope of IAS 12, it needs to consider disclosing information, applying IAS 1, that is helpful to the users of the financial statements in understanding how such Pillar Two taxes have been accounted for.

4.2 Disclosure of current tax expense

The Amendments require an entity to separately disclose its current tax expense (income) related to Pillar Two income taxes

The Amendments require an entity to separately disclose its current tax expense (income) related to Pillar Two income taxes, as this helps users of financial statements understand the relative level of those taxes. This disclosure will only be applicable in periods when Pillar Two legislation is effective.

Extract from IAS 12

88B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.

In illustration 3 below, AXA SA describes that it has applied the mandatory temporary exception and notes that the amendments require certain disclosures, such as the disclosure of the current tax expense related to Pillar Two.

Illustration 3: AXA SA (2023)	France

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Amendments to IAS 12: International tax reform Pillar Two model rules [extract]

Amendments to IAS 12 - Income Taxes issued by the IASB on May 23, 2023 and endorsed by the European Union on November 8, 2023, introduce a mandatory temporary exception in IAS 12, prohibiting both the recognition and disclosure of deferred tax assets and deferred tax liabilities that arise from the implementation of the OECD Pillar Two model rules. AXA has applied this exception in its 2023 consolidated financial statements.

These amendments also introduce some disclosure requirements for affected entities. Indeed, when the tax legislation is effective in a specific jurisdiction, the current tax expense (income) related to Pillar Two will have to be disclosed separately.

4.2.1 Disclosure of current tax expense in interim reports

Some entities that have published interim financial statements under IAS 34 for the first quarter of 2024 have disclosed information about their Pillar Two current tax expense.

Pillar Two tax legislation first takes effect in 2024, so most entities did not disclose Pillar Two current tax expenses in their 2023 annual financial statements as no tax was due that year. However, some entities that have published interim financial statements under IAS 34 for the first quarter of 2024 have disclosed information about their Pillar Two current tax expense.

In illustration 4 below, Ternium SA discloses that it estimates the Pillar Two current tax charge to be $5.6 million in Q1 2024.

Illustration 4: Ternium SA (2024 Q1)	Luxembourg

Consolidated Condensed Interim Financial Statements [extract]
Notes to the Consolidated Condensed Interim Financial Statements [extract]
11. INCOME TAX – PILLAR TWO

The Company is within the scope of the OECD Pillar Two model rules. Pillar Two legislation was enacted in Luxemburg, the jurisdiction in which the company is incorporated, and came into effect from 1 January 2024. The Company applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

The Company estimates as current tax expense related to Pillar Two the amount of $ 5.6 million.

In illustration 5 below, TENARIS, S.A. discloses that it recognised an estimated Pillar Two current tax charge of $20.1 million in Q1 2024.

Illustration 5: TENARIS, S.A. (2024 Q1)	**Luxembourg**

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS [extract]

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS [extract]

9 Income tax [extract]

The group is within the scope of the OECD Pillar Two model rules. Pillar Two legislation was enacted in Luxembourg, the jurisdiction in which the company is incorporated, and came into effect from January 1, 2024. The group applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023. Tenaris recognized an estimated current tax expense related to Pillar Two, amounting to $20.1 million.

In illustration 6 below, Thomson Reuters Corporation discloses that it estimates the Pillar Two current tax charge to be $2 million in Q1 2024, which is specifically attributable to its earnings in Switzerland.

Illustration 6: Thomson Reuters Corporation (2024 Q1)	**Canada**

Notes to Consolidated Financial Statements (unaudited) [extract]

Note 9: Taxation [extract]

In January 2024, the Company began recording tax expense associated with the “Pillar Two model rules” as published by the Organization for Economic Cooperation and Development (“OECD”). These rules are designed to ensure large multinational enterprises within the scope of the rules pay a minimum level of tax in each jurisdiction where they operate. In general, the “Pillar Two model rules” apply a system of top-up taxes to bring the enterprise’s effective tax rate in each jurisdiction to a minimum of 15%. In the three months ended March 31, 2024, income tax expense included $2 million of top-up tax which was attributable to the Company’s earnings in Switzerland.

In illustration 7 below, Shell plc discloses that it estimates the Pillar Two current tax charge to be $79 million in Q1 2024, which it presents in a tabular format.

Illustration 7: Shell plc (2024 Q1) **United Kingdom**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS [extract]

8. Other notes to the unaudited Condensed Consolidated Interim Financial Statements [extract]

Taxation charge/credit

	Quarters		$ million
Q1 2024	Q4 2023	Q1 2023	
3,604	1,099	5,582	Taxation charge/(credit)
			Of which:
3,525	1,099	5,582	Income tax excluding Pillar Two income tax
79	–	–	Income tax related to Pillar Two income tax

On June 20, 2023, the UK substantively enacted Pillar Two Model Rules, effective as from January 1, 2024.

As required by IAS 12 Income Taxes, Shell has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

4.3 Disclosure in periods before (substantively) enacted legislation takes effect

In periods in which Pillar Two legislation is enacted, or substantively enacted but not yet in effect for the entity, the enacted legislation could create exposures that are not yet reflected in the entity's income tax expense for the period due to the application of the mandatory temporary exception, and users might be unable to understand such exposures from other information that an entity discloses in its financial statements. The IASB recognised a need for users of financial statements to have information about an entity's exposure to Pillar Two legislation in the period between it being (substantively) enacted and taking effect for the entity. Accordingly, the IASB developed a disclosure objective based on the feedback received that considers the information needs of the users.

The Basis for Conclusions to the Amendments explains that the IASB considered the following in developing the disclosure requirements:

- *Information that meets the objective of helping users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation* – The Amendments do not specify the items of information an entity is required to disclose or the basis on which the entity prepares that information.
- *Known or reasonably estimable information* – This approach is similar to the existing requirements regarding disclosure of known or reasonably estimable information relevant to assessing the possible impact that the application of a new IFRS accounting standard will have on an entity's financial statements in the period of initial application.

- *Information that is both qualitative and quantitative in nature* – Feedback received from users of financial statements indicated need for both qualitative and quantitative information to understand an entity's exposure to Pillar Two income taxes.
- *Information based on an entity's circumstances at the end of the reporting period* – An entity is not expected to disclose information about possible future transactions and forward-looking information to meet the disclosure objective. This means that an entity is not expected to forecast future profits, reflect mitigation actions it expects to take in future periods, or consider possible future changes in tax legislation.

Based on the above considerations, the Amendments introduced the following disclosure requirements:

Extract from IAS 12

88C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

88D To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Examples illustrating paragraphs 88C–88D

Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include:

(a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and

(b) quantitative information such as:

(i) an indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or

(ii) an indication of how the entity's average effective tax rate would have changed if Pillar Two legislation had been in effect.

Gradually, countries around the world are enacting Pillar Two legislation, some of that legislation is effective in 2024, while other legislation will be effective in 2025. An MNE group may find that it operates in some jurisdictions where Pillar Two legislation is *both* enacted and in effect, while in other jurisdictions Pillar Two legislation is (substantively) enacted but not yet in effect.

In some cases (e.g., when the ultimate parent entity is already in scope of Pillar Two tax legislation), the (substantive) enactment of Pillar Two tax legislation in additional jurisdictions might shift the Pillar Two tax liability within the group, but not materially affect the group's overall exposure. However, in other cases, the (substantive) enactment of Pillar Two tax legislation in additional jurisdictions may bring more group entities within scope of Pillar Two and affect the group's overall exposure.

How we see it

The requirements of paragraph 88C of IAS 12 apply in periods when Pillar Two legislation is enacted or substantively enacted but not yet in effect. If an MNE group finds that it operates in some jurisdictions where Pillar Two legislation is *both* enacted and in effect, while in other jurisdictions, Pillar Two legislation is (substantively) enacted but not yet in effect, the disclosure of qualitative and quantitative information about an entity's exposure to Pillar Two income taxes will continue to apply. If the (substantive) enactment of Pillar Two tax legislation in additional jurisdictions brings more group entities within scope of Pillar Two and materially affects the group's overall exposure, the entity would need to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes because of group entities operating in such additional jurisdictions.

4.4 Disclosures in 2023 annual financial statements

As noted in section 1 above, our November 2023 publication, Applying IFRS *International Tax Reform – Pillar Two Disclosures*, proposed a number of building blocks that could be considered in developing disclosures that help users understand the impact of Pillar Two. That building blocks approach – which is included in the Appendix to this document – is used to highlight and summarise the main elements of the illustrations from published financial statements below.

The disclosures in Alcon Inc.'s financial statements – see illustration 8 below – to comply with the requirements of paragraphs 88C and 88D of IAS 12 comprise the following elements:

- *Scope* – A statement that the entity is within the scope of the Pillar Two model rules
- *Legislation* – A high level description of the OECD model rules and their implementation in Switzerland, which is most impactful and introduces a QDMTT
- *Complexity and challenges* – A brief description of the areas of complexities and challenges including the partial implementation of QDMTT
- *Stage of assessment and implementation* – The entity continues to monitor legislative developments that may have potential future impacts and notes that further Pillar Two tax regulations in Switzerland remain subject to further assessments at both the Federal and Cantonal levels
- *Results of the assessment* – There was no impact on the 2023 consolidated financial statements, but the estimated future impact is to increase the effective tax rate by approximately 1% to 2%
- *Judgements* – The entity notes that it is continuing to follow Pillar Two legislative developments to evaluate the potential future impact

Illustration 8: Alcon Inc. (2023)	Switzerland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF ALCON INC. [extract]

2. Selected accounting policies [extract]

Taxes [extract]

The Organization for Economic Cooperation and Development (“OECD") has published Global Anti-Base Erosion (“GloBE”) Model Rules, which include a minimum 15% tax rate by jurisdiction ("Pillar Two"). For the period ended December 31, 2023, we have applied the IASB amendment to IAS 12, Income Taxes, which provides a mandatory temporary exception from recognizing or disclosing deferred taxes related to Pillar Two.

6. Taxes [extract]

Pillar Two income taxes

The OECD has published GloBE Model Rules, which include a minimum 15% tax rate by jurisdiction ("Pillar Two"). Various countries have enacted or intend to enact tax legislation to comply with Pillar Two rules. Alcon is within the scope of the OECD’s Pillar Two, which did not impact 2023 results but will impact Alcon’s financial results from January 1, 2024 onward.

Of the countries enacting Pillar Two legislation, we expect Switzerland to be the most impactful to Alcon. In December 2023, the Swiss government decided to partially implement Pillar Two by introducing a Qualified Domestic Minimum Top-up Tax (“QDMTT”) to reach the required taxation level of 15% on Pillar Two qualifying profits earned by companies domiciled in Switzerland effective from January 1, 2024. This QDMTT will not be applied to the Pillar Two qualifying profits earned by subsidiaries domiciled in tax jurisdictions outside of Switzerland. The implementation timing and specific provisions of any further Pillar Two tax regulations in Switzerland remain subject to further assessments at both the Federal and Cantonal levels. For the period ended December 31, 2023, we have applied the IASB amendment to IAS 12, Income Taxes, which provides a mandatory temporary exception from recognizing or disclosing deferred taxes related to Pillar Two such that there is no impact to the 2023 Consolidated Financial Statements. The future impact of Pillar Two for Alcon is estimated to increase Alcon's effective tax rate by approximately 1% to 2%. We are continuing to follow Pillar Two legislative developments to evaluate the potential future impact on our consolidated results of operations, financial position and cash flows beginning in 2024.

In illustration 9 below, UniCredit S.p.A. discloses detailed information regarding the following elements:

- *Legislation* – The entity provides a detailed description of the transitional safe harbour rules, which include the qualifying criteria and a list of countries that might not benefit from those rules
- *Basis of the assessment* – It explicitly notes that it based its assessment on the most recent information available, being the 2022 country by country reporting and 2022 financial statements data
- *Complexity and challenges* – The entity discloses that its estimate was based on 2022 data and that differences in revenues, costs, and local tax regimes may affect the conclusions reached. It further adds that the calculation is based on complex new regulations and that not all the relevant data for a full calculation was available

- *Results of the assessment* – There was no impact for 2023 as the Pillar Two rules had noted entered into force yet, but in the future, one country would not meet the 15% minimum ETR and a limited top-up tax potentially would due for an amount lower than €10 million

Illustration 9: UniCredit S.p.A. (2023)	Italy

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11.8 Other informations [extract]
Pillar Two - Global Minimum Tax
As of fiscal year 2024, the UniCredit group will fall within the scope of the newly designed Pillar Two regulation.

The Pillar Two regulation provides for an international framework of rules aimed at ensuring that the worldwide profits of multinational groups are subject to tax at a rate not lower than 15% in every jurisdiction in which the groups operate.

The rules have been firstly designed by the Inclusive Framework of the OECD and then implemented in the European Union through the EU Council Directive 2022/2523 of 14 December 2022. For EU countries, this Directive is expected to enter into force as of 2024 (in Italy, the provisions of the Directive have been transposed into Italian law with the Legislative Decree No.209/2023). Certain non-EU Member State in which the UniCredit group operates have announced that they will implement the Pillar Two rules as of 2024 (e.g., United Kingdom) while other jurisdictions have not yet communicated if and when they will implement such set of rules.

In a nutshell, the Pillar Two rules provide that, if in certain jurisdictions where the UniCredit group operates the effective tax rate (given by the ratio between adjusted accounting results and adjusted corporate income taxes paid in that jurisdiction) falls below 15%, then the UniCredit group will be required to pay an additional tax (so-called top-up tax) to reach the 15% tax rate threshold.

The relevant set of rules also provides for a transition period in which the in-scope multinational groups may avoid undergoing the complex effective tax rate calculation required by the new piece of legislation. In particular, the Pillar Two legislation provides for a transitional safe harbor ("TSH") that applies for the first three fiscal years following the entry into force of the relevant regulation; the TSH relies on simplified calculations (mainly based on data extracted from the Country-by-Country Reporting under BEPS Action 13, implemented in Italy with Law No.208/2015) and three kinds of alternative tests. Where at least one of the TSH tests is met for a jurisdiction in which the UniCredit group operates, the top-up tax due for such jurisdiction will be deemed to be zero. A test is met for a jurisdiction where:

- Revenue and profit before tax are below, respectively, €10 million and €1 million (the de minimis test);
- The Effective Tax Rate (ETR) equals or exceeds an agreed rate (the ETR test, 15% for FY 2024); or
- The profit before tax does not exceed an amount calculated as a percentage of tangible assets and payroll expense (the routine profits test).

Illustration 9: UniCredit S.p.A. (2023) (cont'd)	Italy

Even if for the financial year 2023 the Pillar Two rules have not entered into force yet, the UniCredit group has performed an assessment of its potential exposure for Pillar Two top-up taxes.

The above-mentioned assessment is based on the most recent information available regarding the financial performance of the constituent entities in the UniCredit group, being the 2022 Country by Country Reporting and 2022 financial statements data.

Based on the assessment performed, most of the jurisdictions should benefit from the TSH. Only five jurisdictions might not benefit from the TSH, namely Bosnia and Herzegovina, Bulgaria, Italy, Serbia and Hungary.

With respect to those five jurisdictions, the UniCredit group has provisionally calculated the potential top-up tax exposure based on the full Pillar Two regime and only one country would not meet the 15% minimum ETR with a limited top-up tax potentially due for an amount lower than €10 million.

The above analysis has to be considered as an estimate exposure given that, as already highlighted above, it was based on the 2022 data, and differences in revenues, costs, local tax regimes etc. may affect the conclusions reached; furthermore, the estimated calculation is based on complex regulations that have only recently been enacted with limited guidelines and not all the relevant data required to perform the full Pillar Two calculation was available.

Starting from 2024, each legal entity of the UniCredit group will apply the exception to the recognition and disclosure of deferred tax assets and liabilities relating to Pillar Two income taxes referred to in paragraph 4A IAS12.

In illustration 10 below, AXA SA discloses the following:

- *Stage of assessment and implementation* – The entity notes that its analysis is still in progress, but that it has identified the main jurisdictions in which it has an exposure.
- *Complexity and challenges* –The entity notes that tax legislation in one affected jurisdiction will change in the future and that there are still uncertainties on the way to determine the effective tax rate based on Pillar Two rules.
- *Results of the assessment* – The total impact of the Pillar Two taxes on the net consolidated income is currently estimated at €0.1 billion

Illustration 10: AXA SA (2023)	France

6 CONSOLIDATED FINANCIAL STATEMENTS [extract]
6.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [extract]
1.2 GENERAL ACCOUNTING PRINCIPLES [extract]
Amendments to IAS 12: International tax reform Pillar Two model rules [extract]
The Group has initiated a specific project in 2023 to implement Pillar Two model rules. Based on the analysis in progress, main jurisdictions where the Group may have an exposure are Ireland, Hong Kong and Bermuda. As for Bermuda, a local corporate income tax of 15% has been enacted on December 27, 2023. This tax will be effective for fiscal years beginning on or after January 1, 2025. In this context, the Group expects to pay a top-up tax in France on its 2024 expected profits in Bermuda but will be subject to local tax in this jurisdiction starting from 2025, which will limit the Group's exposure connected to this jurisdiction.

For 2024, the total impact of these taxes (payable at AXA SA level and at local level in case of local minimum tax being enacted) on the Group net consolidated income is currently estimated at €-0.1 billion. This amount corresponds to an estimation, subject to further refinement, as it is based on projections of results by jurisdictions for corporate entities and investment entities and there are still uncertainties on the way to determine the effective tax rate based on Pillar Two rules.

In illustration 11 below, Banco Santander, S.A. discloses, in its 2023 annual financial statements, the following:

- *Legislation* – A high level description of the OECD model rules and its implementation in Spain
- *Results of the assessment* –The entity does not expect a significant impact derived from Pillar Two

Illustration 11: Banco Santander, S.A. (2023)	Spain

Notes to the consolidated financial statements [extract]
27. Tax matters [extract]
f) Global Minimum Tax Pillar Two
In the European Union, in December 2022, was adopted Council Directive 2022/2523 on ensuring an overall minimum level of taxation for multinational enterprise groups and large domestic groups in the EU, that had to be transposed by 31 December 2023, entering into force the new minimum taxation on 1 January 2024. The Directive implements at EU level the Pillar Two rules of the OECD's Inclusive Framework on base erosion and profit shifting. Pillar Two applies to multinational groups with a turnover of more than EUR 750 million and entails a minimum tax of 15% calculated on adjusted accounting profit on a jurisdiction-by-jurisdiction basis. In 2023, the OECD has completed these rules by approving administrative guidance and a report on safe harbours in order to simplify their application.

Illustration 11: Banco Santander, S.A. (2023) (cont'd)	Spain

In Spain, on 19 December 2023 the preliminary draft law transposing the European Directive establishing a minimum overall tax level of 15% for multinational companies and large domestic groups was published. Once approved, the law will enter into force on 1 January 2024. Pillar Two legislation has also been enacted or is in the process of being enacted in the United Kingdom and in most EU Member States.

The Group is in scope of this legislation and has performed an assessment of its potential exposure to Pillar Two income taxes taking into consideration the transitory safe harbours. Once the legislation is approved in Spain, Banco Santander S.A. will be the ultimate parent entity liable to pay the additional tax due for those subsidiaries located in jurisdictions below the minimum effective tax rate of 15%. Group entities will also be subject to tax in those countries where a domestic global minimum tax is approved according to the Pillar Two rules.

The assessment of the potential exposure to Pillar Two income taxes is based on the most recent tax filings, country-by-country reporting and financial statements for the Group entities. Based on this assessment, the Pillar Two effective tax rates in most of the jurisdictions in which the Group operates are above 15%. Consequently, the Group does not estimate a significant impact derived from this new regulation, without prejudice to the relevant administrative burdens that will entail its implementation.

An entity can refer in its (condensed) interim financial statements, to previous annual financial statements for information that has not changed in the intervening period.

4.5 Disclosures in 2024 interim financial reports

Section 3.1 above discusses the principles and requirements in IAS 34 that are applicable to condensed interim financial statements. Furthermore, paragraph 6 of IAS 34 specifically states that, "The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported." Therefore, an entity can refer in its (condensed) interim financial statements to previous annual financial statements for information that has not changed in the intervening period.

In illustration 12 below, Stevanato Group S.p.A. discloses, in its Q1 2024 interim financial statements, the following:

- *Legislation* –The entity discloses a high-level description of both the OECD and Italian Pillar Two rules, that it applies the transitional safe harbour rules, and that it does not qualify for the safe harbour rules in China
- *Complexity and challenges* – The entity discloses that it is not the ultimate parent entity for Pillar Two purposes, which affects the way the jurisdictional effective tax rate is calculated
- *Stage of assessment and implementation* – The entity clarifies that the TSH calculations for Pillar Two purposes are preliminary and that the preliminary calculations are based on the accounting data of the first quarter of fiscal year 2024

- *Results of the assessment* – As the effective tax rate calculated for Transitional Safe Harbour purposes is close to 15%, the entity expects no significant impact in terms of potential top up tax

Illustration 12: Stevanato Group S.p.A. (2024 Q1)	Italy

Notes to the Unaudited Interim Condensed Consolidated Financial Statements [extract]
15. Income tax [extract]
The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12.

Accordingly, the Group neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes. On December 28, 2023, the government of Italy, where the parent company is incorporated, enacted the Pillar Two income taxes legislation effective from January 1, 2024 (see Legislative Decree no. 209/2023, hereinafter "the Italian Pillar Two rules"). According to the Italian Pillar Two rules, Stevanato Holding S.r.l. qualifies as the ultimate parent entity ("UPE") for Pillar Two purposes, as it consolidates Stevanato Group S.p.A. on a line-by-line basis. As a consequence, the Pillar Two perimeter would be identified with the perimeter of the consolidated financial statements of Stevanato Holding S.r.l., including all the entities which are consolidated on a line-by-line basis. As the UPE, Stevanato Holding S.r.l. will be in charge of the calculation of the jurisdictional effective tax rate according to the Pillar Two Rules. Stevanato Holding S.r.l. directly holds the controlling participation in Stevanato Group S.p.A. with a 73.73% stake. Due to the apportionment of the profit rights related to the treasury shares held by Stevanato Group S.p.A., according to Article no. 2357-ter of the Italian Civil Code, the profit rights held by Stevanato Holding S.r.l. are equal to 81.86% based on the number of shares owned by Stevanato Holding S.r.l. over the total amount of the shares with rights to profits. As a consequence, Stevanato Group S.p.A. is a constituent entity for Pillar Two purposes.

Under the Italian Pillar Two rules, the UPE will be generally required to pay in Italy a top-up tax on profits of its subsidiaries that are taxed at an effective tax rate (determined in accordance with the Italian Pillar Two rules) of less than 15%. The Group has performed a preliminary calculation of the "Transitional Safe Harbours" for Pillar Two purposes ("TSH") on the basis of the OECD rules on "Safe Harbour and Penalty Relief' issued on December 20, 2022, which are intended as "qualifying international agreement on safe harbours" for the purposes of the EU Directive n. 2523/2022 (art. 32) and the Italian Pillar Two rules. This preliminary calculation is based on the accounting data for the first quarter of fiscal year 2024. Based on the financial data of the first quarter 2024, the main jurisdictions in which a potential exposure to top-up-tax may exist is China, as no TSH test would be met. However, as the effective tax rate calculated for TSH purposes is close to 15%, no significant impact in terms of potential top up tax is expected. For the sake of completeness, we highlight that currently China has not implemented a local Qualified Domestic Top up Tax within their domestic legislation.

In illustration 13 below, Wheaton Precious Metals Corp. discloses, in its Q1 2024 interim financial statements, the following:

- *Legislation* –It discloses a high level update on the state of Pillar Two legislation in the three jurisdictions that are most significant to the entity, and that the entity does not operate in any jurisdiction where Pillar Two legislation was effective as for the three months ended March 2024. However, the entity also notes that Luxembourg Pillar Two legislation contains an undertaxed profits rule which effective from in 2025 onwards, that would allow Luxembourg to collect Pillar Two top-up taxes related to the entity's subsidiaries operating in the Cayman Islands if Pillar Two legislation were not enacted in Canada
- *Results of the assessment* – The entity discloses its Pillar Two exposure in one low tax jurisdiction and its net earnings in that jurisdiction

Illustration 13: Wheaton Precious Metals Corp, (2024 Q1) Canada

Notes to the Condensed Interim Consolidated Financial Statements [extract]
22. Income Taxes [extract]
Global Minimum Tax
The Company is within the scope of global minimum tax ("GMT") under the OECD Pillar Two model rules ("Pillar Two"). Subject to tax legislation enacting Pillar Two being passed in the jurisdictions where the Company and its subsidiaries operate, the group is liable to pay a top-up tax for any deficiency between the minimum tax rate of 15% and the effective tax rate per jurisdiction. The Canadian parent company, as well as its Luxembourg subsidiary (Silver Wheaton Luxembourg S.a.r.l., or "Silver Wheaton Luxembourg") have an effective tax rate that exceeds 15% or arc in a loss position. The group's subsidiaries that operate in the Cayman Islands have an effective tax rate of 0%. For the three months ended March 31, 2024 and 2023, the Cayman Islands subsidiaries had net earnings of $165 million and $111 million, respectively.

The Company does not operate in any jurisdiction where Pillar Two legislation was effective as for the three months ended March 31, 2024 and therefore the Company has no related current tax expense associated with GMT.

Jurisdictional updates are as follows:

Canada

On May 2, 2024, the Canadian Federal Government introduced the Federal budget bill, C-69, into parliament which contains the Global Minimum Tax Act ("GMTA") reflecting application of GMT to in-scope companies for fiscal years commencing on or after December 31, 2023. However, to date, the GMTA has not been enacted. If enacted as drafted, the proposed Canadian rules in the GMTA would apply to the income of the Company's Cayman Island subsidiaries from January 1, 2024.

Illustration 13: Wheaton Precious Metals Corp, (2024 Q1) Canada (cont'd)

Luxembourg

Pillar Two legislation was enacted in Luxembourg on December 22, 2023. The rules are applicable from January 1, 2024. As discussed above, Silver Wheaton Luxembourg has an effective tax rate in excess of 15%. The Luxembourg Pillar Two legislation also contains an undertaxed profits rule which is effective January 1, 2025, that would allow Luxembourg to collect Pillar Two top-up taxes related to the Company's subsidiaries operating in the Cayman Islands if the GMTA were not enacted in Canada. Given the Canadian government's stated intent to enact the GMTA, the Company does not expect the Luxembourg Pillar Two legislation to have a material impact on the Company.

Cayman Islands

To date, the government of the Cayman Islands has indicated that they do not intend to enact Pillar Two Legislation.

Appendix: Disclosure building blocks

EY's [Applying IFRS *International Tax Reform – Pillar Two Disclosures*] proposes a number of building blocks that could be considered in developing disclosures that help users understand the impact of Pillar Two.

The Amendments do not specify what information an entity needs to disclose or how they should prepare that information. Nevertheless, developing comprehensive and insightful disclosures related to Pillar Two income taxes is not straightforward. Disclosures to comply with the requirements in IAS 12 depend on several aspects such as the jurisdictions in which the MNE group operates, the group structure, and the systems and processes the MNE group has in order to gather information to comply with the reporting requirements.

To fully address the complexity that exists in respect of the potential impact of Pillar Two legislation, where necessary for an understanding of an entity's exposure to Pillar Two income taxes, an entity will need to consider the following building blocks in developing disclosures that help users understand the impact of such taxes:

Building blocks in developing disclosures	
Scope	An entity discloses whether it is (part of) an MNE group that is within scope of Pillar Two legislation. An MNE group is expected to be in scope of Pillar Two legislation if it operates in a jurisdiction that has (substantively) enacted Pillar Two legislation and its consolidated revenue exceeds €750 million, or is expected to exceed the €750 million threshold in FY24.
Legislation	An entity discloses information about the main requirements of Pillar Two legislation that it expects to be subject to. This may include information about the effective date of the legislation, the potential effects of the (substantive) enactment of Pillar Two legislation in additional countries, the status of enabling legislation, transitional safe harbour relief, if any, and other significant requirements.
Complexity and challenges	The introduction of the complicated Pillar Two legislation across a large number of jurisdictions, uncertainties around the exact wording of the legislation, reliance on safe harbour provisions, and uncertainties as to which charging mechanisms apply in determining the liability for top-up taxes of group companies, will give rise to complexities and challenges in determining an entity's exposure to Pillar Two income taxes. To the extent that this affects an entity's ability to reasonably estimate the impact of the (expected) Pillar Two legislation, it will need to disclose that fact and disclose information about what progress it has been able to make

Building blocks in developing disclosures (cont'd)	
	in assessing the impact. In addition, an entity would need to disclose information on how these complexities and challenges might affect its exposure to Pillar Two income taxes.
Stage of assessment and implementation	The implementation of Pillar Two legislation will require MNEs to adopt structured processes and procedures for gathering information and documenting the judgements applied in the recognition and measurement of top-up taxes. The Amendments require disclosure of the stage at which the MNE group is, at the end of the reporting period, regarding the assessment of potential exposure and implementation of Pillar Two legislation. This could include, for example, that the MNE group has identified jurisdictions where the combined effective tax rate is lower than 15%, whether it meets the transitional safe harbour provisions in the relevant jurisdictions and identifying data/system gaps in order to gather required information for financial reporting and compliance.
Basis of the assessment	The assessment of the potential exposure to Pillar Two income taxes is generally based on the most recent information available from tax filings, country-by-country reporting and financial statements, and takes into account known changes in the group and its operations. Accordingly, MNE groups are encouraged to describe the nature of the information used (e.g., tax filings, country-by-country reporting and financial statements), the period(s) to which it relates, and where relevant, state that the information used may not be entirely representative to accurately predict or estimate the potential exposure to Pillar Two income taxes in the year the legislation becomes effective.
Results of the assessment	The disclosure should clearly convey the results of the assessment that has been carried out or is being carried out as at the reporting date. MNE groups would be expected to report sufficient details of the assessment for users to comprehend the potential exposure. Such detailed information may include a list of, for example, jurisdictions identified where the Pillar Two ETR is expected to be lower than 15%, jurisdictions where the entity is still assessing whether the safe harbour relief applies, jurisdictions where the Pillar Two ETR is expected to be higher than 15%.

Building blocks in developing disclosures (cont'd)	
Judgements	In certain circumstances, prior year data that is being used may have been impacted by a one-off or discrete items. In such situations, MNE groups might exclude such items or adjust the information in order to obtain more reasonable information that would be useful for the assessment. If assessment of the potential impact of Pillar Two income taxes relies on significant judgements, those judgements would need to be disclosed to the extent that would be necessary for the users to appreciate the potential exposure that is that is being reported.

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