

# Chapter 7.6: Ongoing Compliance Process

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## Learning Objective

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After completing this chapter, you will be able to establish a sustainable annual Pillar Two compliance cycle, design data gathering processes that integrate with existing financial systems, identify system and technology requirements for GloBE calculations, and implement governance frameworks with appropriate controls for audit-ready compliance.

## 1. Overview: Compliance as an Ongoing Process

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Pillar Two compliance is not a one-time project—it is an **enduring requirement** that must be embedded into annual business cycles.

### PILLAR TWO COMPLIANCE: ONE-TIME vs ONGOING

#### ONE-TIME ACTIVITIES (Year 1):

- Scope determination and entity classification
- System and process implementation
- Initial data mapping and gap analysis
- Governance framework design
- Transition year adjustments (Article 9.1, 9.2)

#### ONGOING ANNUAL ACTIVITIES:

- Data gathering and validation
- ETR calculations by jurisdiction

- | |— Safe Harbour assessments
- | |— Top-Up Tax computations
- | |— GIR preparation and filing
- | |— Local QDMTT filings
- | |— Election management
- | |— Documentation and audit file maintenance

## 2. Annual Compliance Calendar

### 2.1 Standard Timeline (15-Month Cycle)

For an MNE with a **31 December fiscal year-end**:

Month	Activity	Milestone
January	Fiscal year closes	Year-end close begins
February-March	Financial statement preparation	Audit process
April	Statutory accounts finalised	Data available
May-June	GloBE data extraction	Entity-level data compiled
July-August	ETR calculations	Jurisdictional analysis
September	Safe Harbour assessment	Compliance strategy confirmed
October	Top-Up Tax calculations	Liability quantified
November-December	GIR preparation	Draft GIR reviewed
January (Y+2)	GIR finalisation	Internal sign-off



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## Data Gathering Process

## Data Sources

Pillar Two calculations require data from **multiple systems**:

Data Category	Source Systems	Key Data Points
Financial	ERP, Consolidation system	Net income, revenue, assets
Tax	Tax provision software	Current tax, deferred tax, CFC
Payroll	HR/Payroll systems	Employee costs, headcount
Fixed Assets	Asset register	Tangible asset NBV by location
Entity Master	Corporate secretarial	Ownership %, entity classification
CbCR	CbCR filing system	Revenue, PBT, tax paid by jurisdiction

## The 122 Data Point Framework

The GIR requires approximately **122 key data points** per entity/jurisdiction:

## DATA POINT CATEGORIES

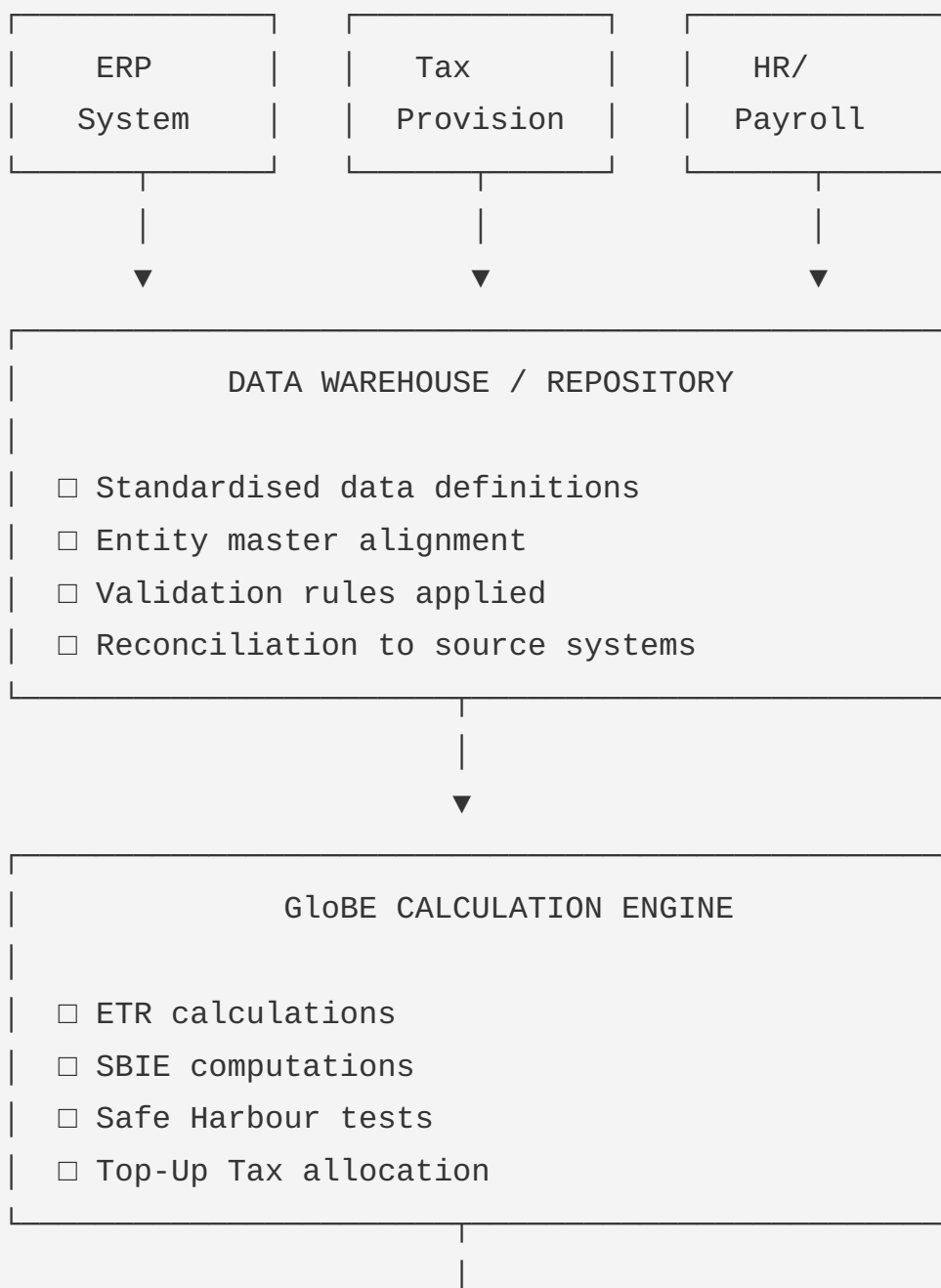
1. Entity Information (~15 data points)
  - └─ Entity name, identification
  - └─ Jurisdiction
  - └─ Ownership percentage
  - └─ Entity classification (CE, POPE, JV, etc.)
2. GloBE Income Calculation (~25 data points)
  - └─ Financial accounting net income
  - └─ Intra-group dividends
  - └─ Equity gains/losses
  - └─ Asymmetric FX adjustments
  - └─ Policy disallowed expenses
3. Covered Taxes (~20 data points)
  - └─ Current tax expense
  - └─ Deferred tax expense
  - └─ CFC tax allocations
  - └─ Uncertain tax positions
  - └─ DTA/DTL movements
4. SBIE Components (~15 data points)
  - └─ Eligible payroll costs
  - └─ Eligible employee count
  - └─ Tangible asset NBV
  - └─ Transition rate applied
5. Top-Up Tax Calculation (~20 data points)
  - └─ Jurisdictional ETR
  - └─ Excess Profit
  - └─ Top-Up Tax percentage
  - └─ Allocation factors
6. Elections and Safe Harbours (~15 data points)
  - └─ Elections made
  - └─ Safe Harbour test results
  - └─ Prior year data for comparisons

## 7. Reconciliation Items (~12 data points)

- └─ Prior year adjustments
- └─ DTL recapture
- └─ GloBE loss carryforwards

## Data Flow Architecture

DATA FLOW: FROM SOURCE TO GIR





### GIR PREPARATION MODULE

- ☐ XML schema population
- ☐ Validation checks
- ☐ GIR filing generation

## Data Gathering Checklist

### DATA GATHERING PROCESS CHECKLIST

MNE Group: \_\_\_\_\_

Fiscal Year: \_\_\_\_\_

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#### PRE-CLOSE ACTIVITIES (Before Year-End)

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- ☐ Confirm entity list for GloBE purposes
- ☐ Update ownership percentages for acquisitions/disposals
- ☐ Identify Safe Harbour candidates (prioritise data gathering)
- ☐ Confirm accounting standard used by each entity
- ☐ Validate chart of accounts mapping to GloBE categories

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#### POST-CLOSE DATA EXTRACTION (Months 1-4)

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- ☐ Extract financial data from consolidation system
- ☐ Obtain statutory accounts for material entities
- ☐ Extract tax provision data (current and deferred)
- ☐ Compile payroll costs and headcount by entity
- ☐ Obtain tangible asset NBV by location

- ☐ Verify CbCR data alignment with GloBE entities

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#### DATA VALIDATION (Months 4-6)

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- ☐ Reconcile entity-level to consolidated totals
- ☐ Validate intercompany eliminations
- ☐ Cross-check tax data to filed returns
- ☐ Verify payroll to HR systems
- ☐ Confirm asset locations to fixed asset register
- ☐ Document data sources and adjustments

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#### CALCULATION INPUTS (Months 6-10)

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- ☐ Apply GloBE Income adjustments
- ☐ Apply Covered Tax adjustments
- ☐ Calculate SBIE by jurisdiction
- ☐ Test Safe Harbour eligibility
- ☐ Compute ETR by jurisdiction
- ☐ Calculate Top-Up Tax where applicable

## System Requirements

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### Technology Landscape

MNEs typically require **three tiers** of technology support:

Tier	Purpose	Examples
Source Systems	Transaction processing	ERP (SAP, Oracle), Consolidation (Hyperion, OneStream)



Tier	Purpose	Examples
<b>Tax Technology</b>	Provision and compliance	ONESOURCE, Vertex, Longview
<b>GloBE-Specific</b>	Pillar Two calculations	EY GloBE Engine, PwC Pillar Two solution, Deloitte solution

## Build vs Buy Decision

### BUILD vs BUY: TECHNOLOGY OPTIONS

#### OPTION 1: SPREADSHEET-BASED (Small MNEs)

- └─ Pros: Low cost, familiar tools
- └─ Cons: Manual, error-prone, limited audit trail
- └─ Suitable for: 5-20 entities, simple structures

#### OPTION 2: ENHANCED TAX PROVISION (Medium MNEs)

- └─ Pros: Integrated with existing tools
- └─ Cons: May require significant customisation
- └─ Suitable for: 20-100 entities, moderate complexity

#### OPTION 3: DEDICATED GloBE SOLUTION (Large MNEs)

- └─ Pros: Purpose-built, scalable, audit-ready
- └─ Cons: Implementation cost, integration effort
- └─ Suitable for: 100+ entities, complex structures, high volume

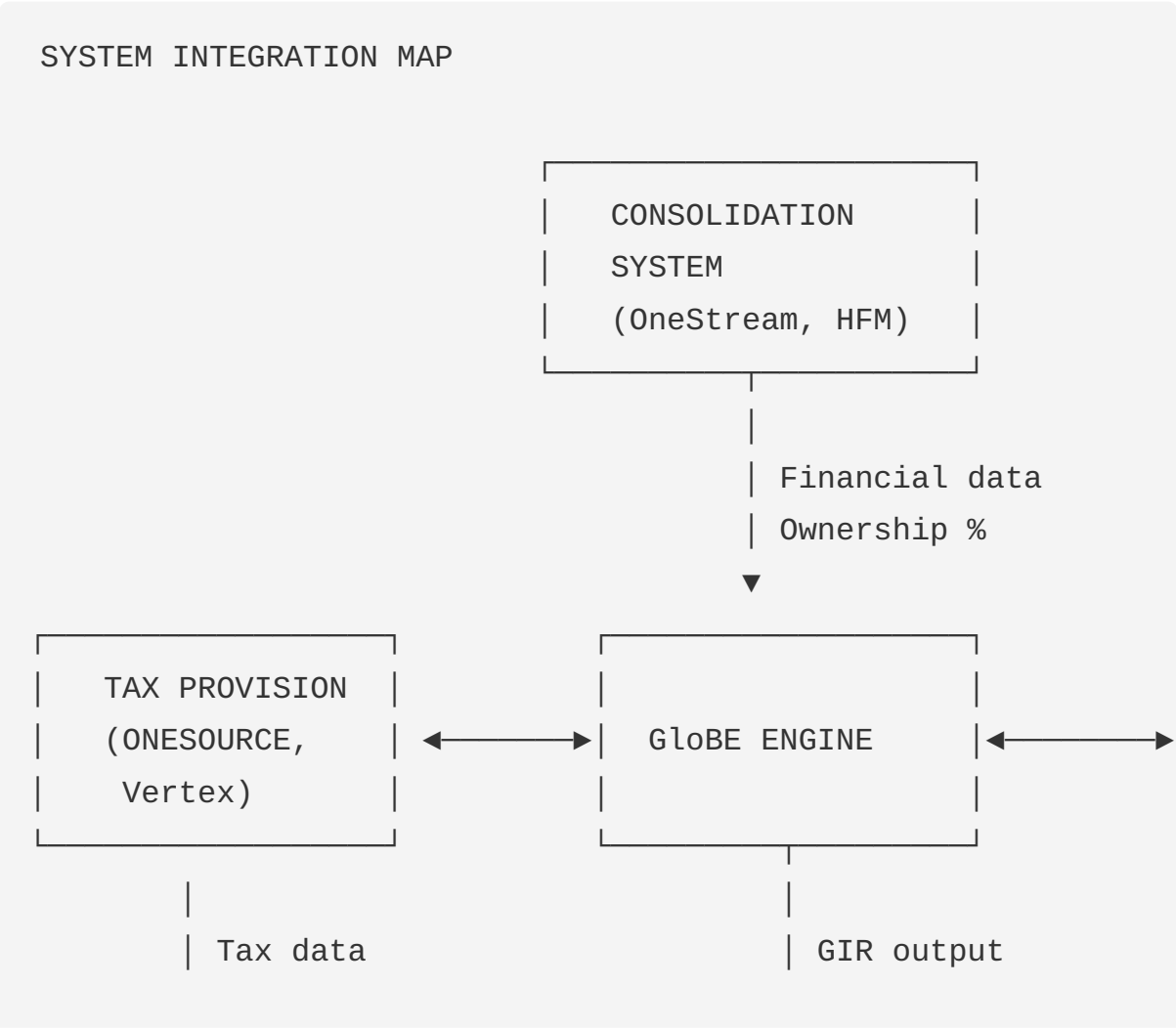
## Minimum System Capabilities

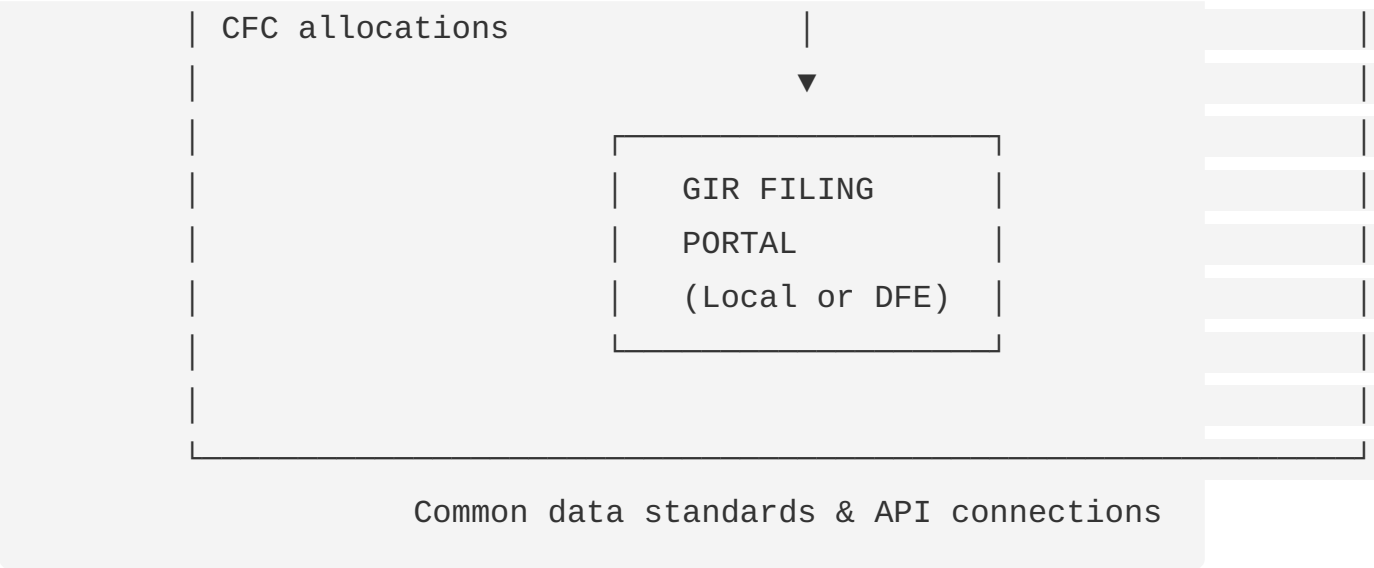
Any GloBE compliance system should support:

Capability	Requirement
<b>Data Import</b>	Multiple formats (Excel, CSV, XML, API)

Capability	Requirement
Entity Management	Ownership structures, classifications, changes
Calculation Engine	ETR, SBIE, Top-Up Tax with adjustment tracking
Safe Harbour Testing	Automated De Minimis, ETR, Routine Profits tests
Election Tracking	Annual elections, irrevocability flags
GIR Generation	XML schema output, validation against OECD schema
Audit Trail	Full change log, version control, sign-off workflow
Reporting	Jurisdictional summaries, variance analysis

Integration Requirements





## 5. Governance and Controls

### Operating Model

Establish clear **roles and responsibilities** across functions:

Role	Function	Responsibilities
Pillar Two Lead	Tax	Overall accountability, filing sign-off
Technical Owner	Tax	GloBE calculations, elections, technical queries
Data Owner	Finance	Data extraction, validation, reconciliation
System Owner	IT/Tax Technology	System maintenance, integrations, access control
Local Tax Manager	Local Tax	Entity-level data, local QDMTT filings
External Advisor	External	Technical advice, review, quality assurance

## Three Lines of Defence

Apply a **three lines of defence** governance model:

### THREE LINES OF DEFENCE: PILLAR TWO

#### FIRST LINE: OPERATIONAL CONTROLS

- └─ Data extraction procedures
- └─ Calculation review and sign-off
- └─ Reconciliation processes
- └─ Documentation standards
- └─ Owner: Tax/Finance teams

#### SECOND LINE: OVERSIGHT FUNCTIONS

- └─ Independent calculation review
- └─ Exception reporting
- └─ Policy compliance monitoring
- └─ Training and awareness
- └─ Owner: Tax Director / Internal Compliance

#### THIRD LINE: INDEPENDENT ASSURANCE

- └─ Internal audit review
- └─ External advisor review (periodic)
- └─ Process effectiveness assessment
- └─ Owner: Internal Audit / External Auditor

## Control Framework

Control Area	Control Description	Frequency
Completeness	All CEs included in GloBE scope	Annual
Accuracy	Calculation review and recalculation	Each filing
Timeliness	Filing deadline monitoring	Quarterly

Control Area	Control Description	Frequency
Authorisation	GIR sign-off by authorised officer	Each filing
Data Integrity	Reconciliation to source systems	Monthly
Change Control	System changes documented and tested	As needed
Segregation	Preparer vs reviewer separation	Each filing

## Documentation Requirements





Maintain an **audit-ready file** for each fiscal year:

### PILLAR TWO AUDIT FILE STRUCTURE

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📁 FY 2024 Pillar Two Compliance File
|
├── 📁 1. Scope and Entity Classification
|   ├── Entity list with ownership %
|   ├── Scope determination memo
|   └── Excluded entity analysis
|
├── 📁 2. GloBE Income Calculations
|   ├── Adjustment schedules by entity
|   ├── Source document references
|   └── Review sign-off
|
├── 📁 3. Covered Taxes
|   ├── Tax expense analysis by entity
|   ├── Deferred tax workings
|   └── CFC/hybrid allocations
|
├── 📁 4. ETR and Top-Up Tax
|   ├── Jurisdictional ETR calculations
|   └── SBIE workings

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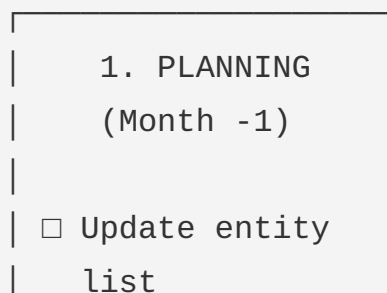
- |   └─ Top-Up Tax allocation
- |
- |─  5. Safe Harbours
  - |   └─ Safe Harbour qualification analysis
  - |   └─ CbCR data reconciliation
  - |   └─ Test results by jurisdiction
- |
- |─  6. Elections
  - |   └─ Election register
  - |   └─ Analysis supporting elections
  - |   └─ Board/committee approval
- |
- |─  7. GIR Filing
  - |   └─ Filed GIR (XML and PDF)
  - |   └─ Filing confirmation receipt
  - |   └─ Prior year comparison
- |
- |─  8. Governance
  - |   └─ Sign-off matrix
  - |   └─ Review comments and resolutions
  - |   └─ Issue log and remediation

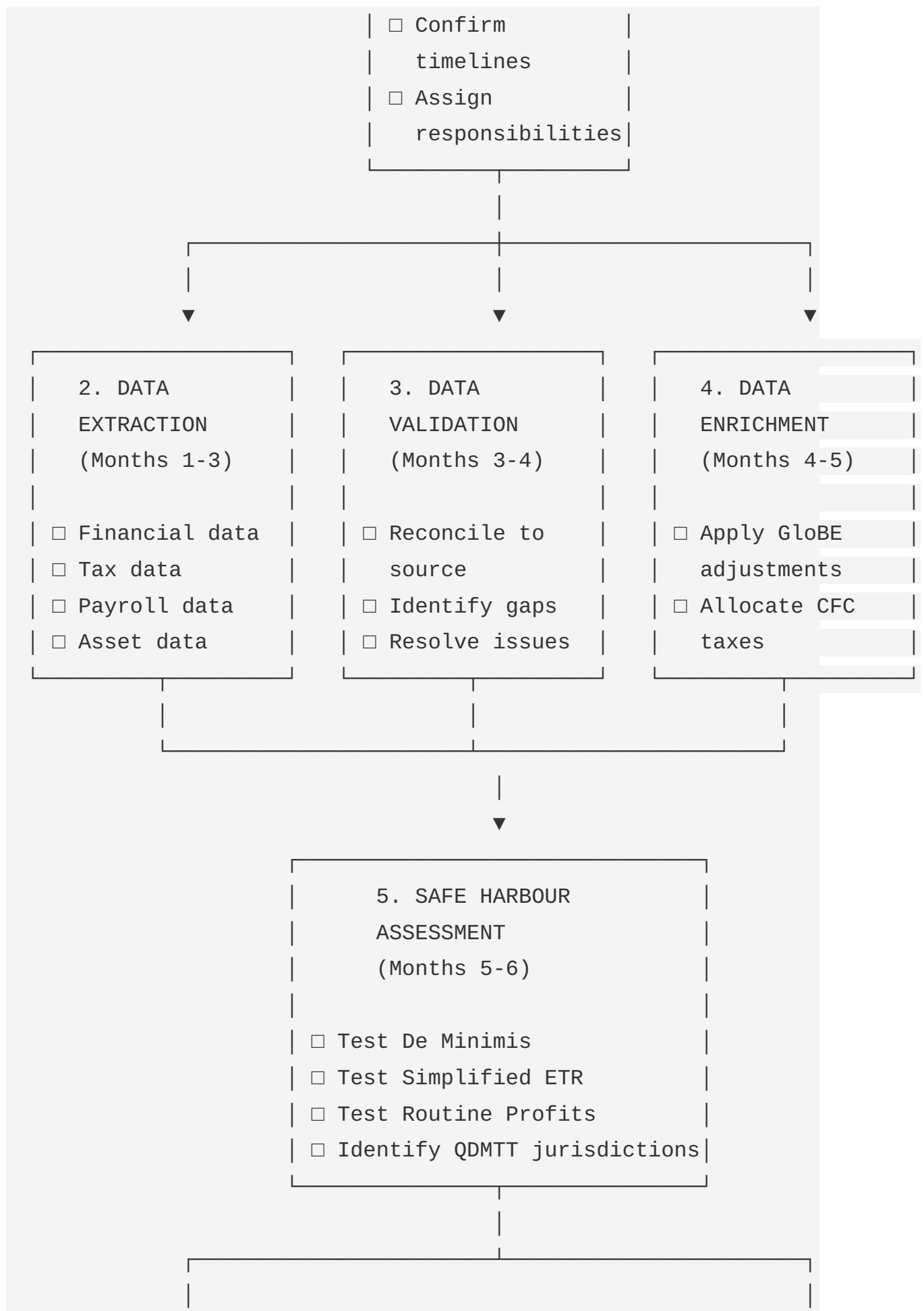
## Process Map: Annual Pillar Two Compliance Cycle

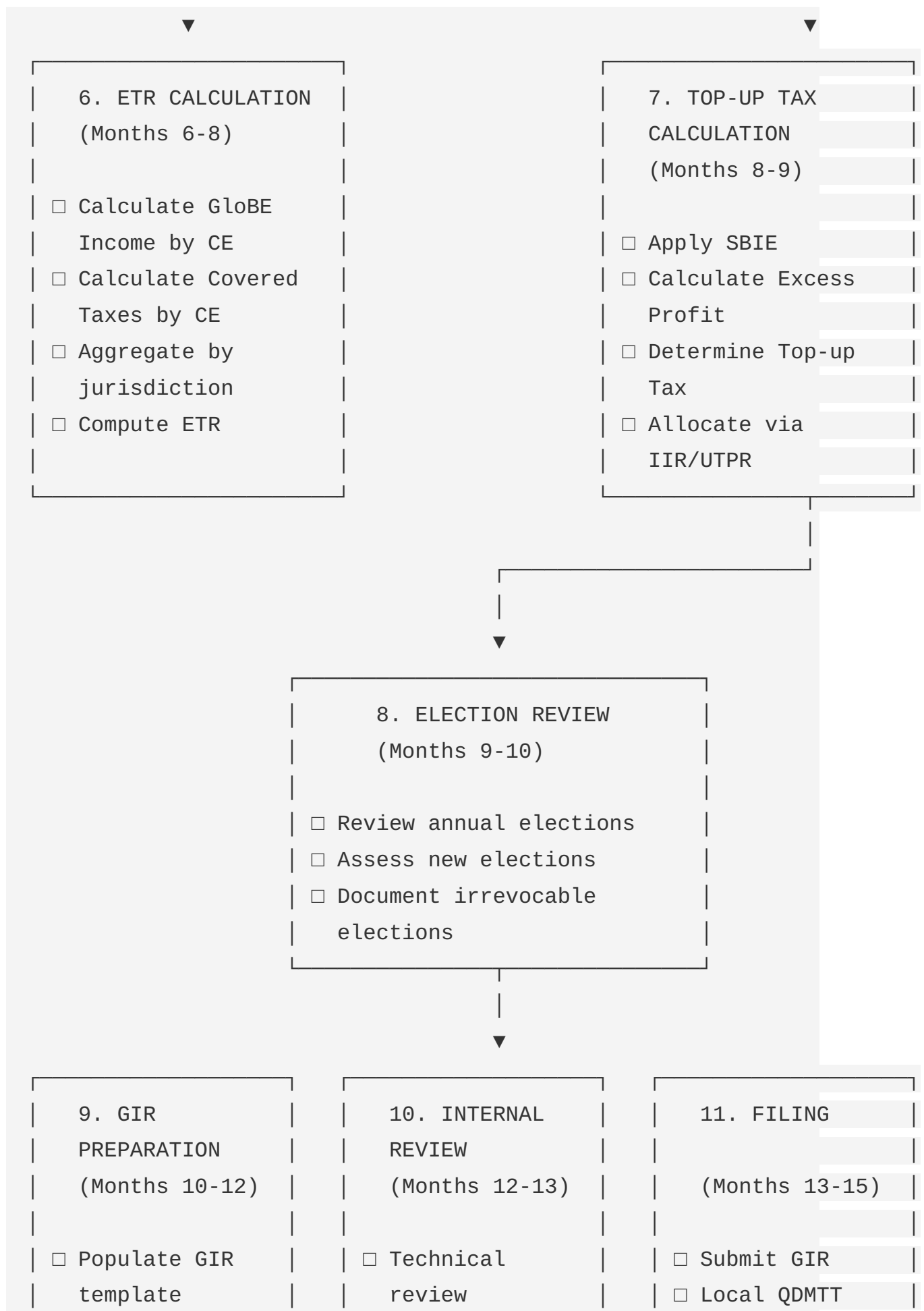
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### The Twelve-Step Cycle

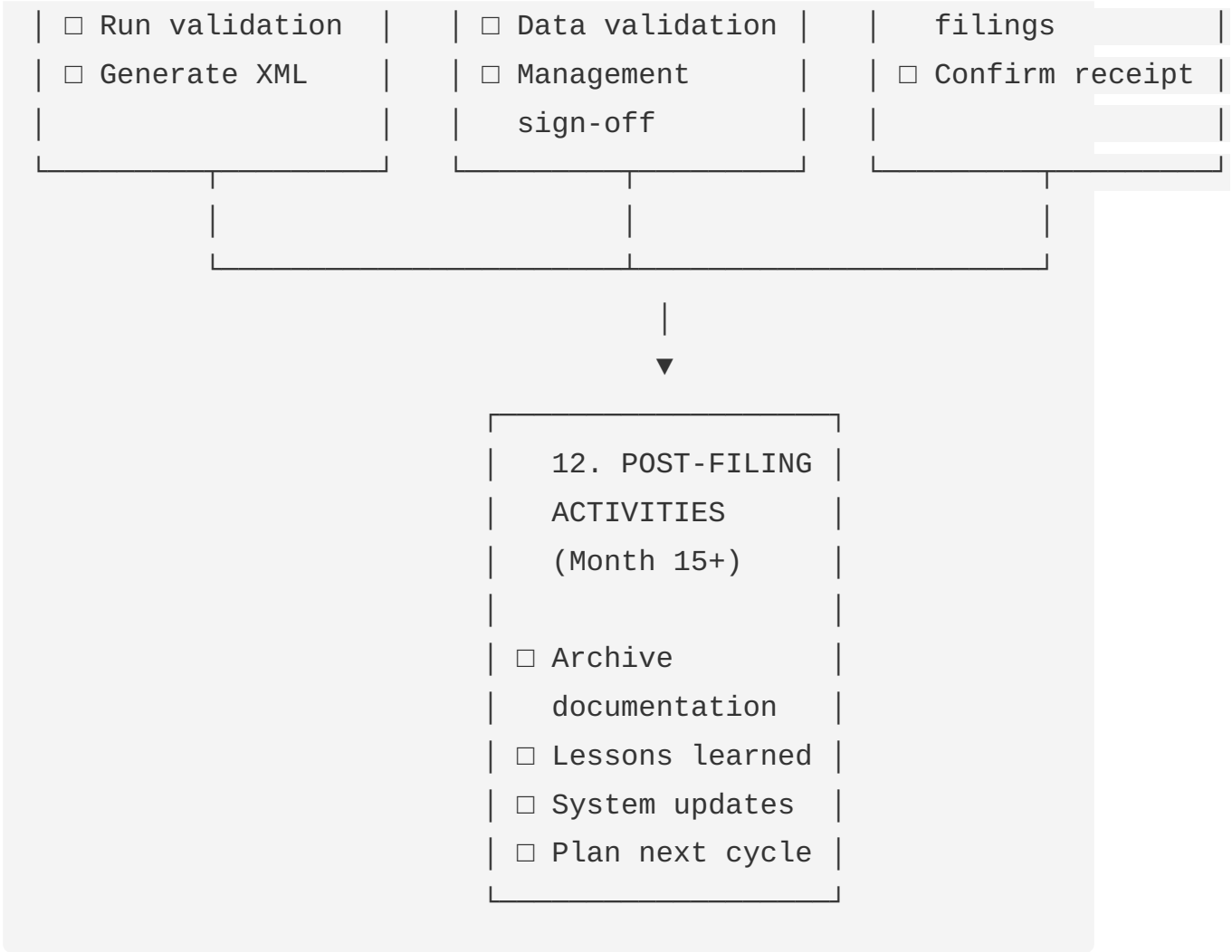
#### ANNUAL PILLAR TWO COMPLIANCE CYCLE











## 7. Stratos Worked Example: Compliance Process Design

### 7.1 Background

Stratos Holdings plc is establishing its ongoing Pillar Two compliance process for FY 2025 onwards.

### Stratos Compliance Calendar (FY 2025)

Phase	Period	Stratos Activity
Year-end	Dec 2025	FY 2025 closes

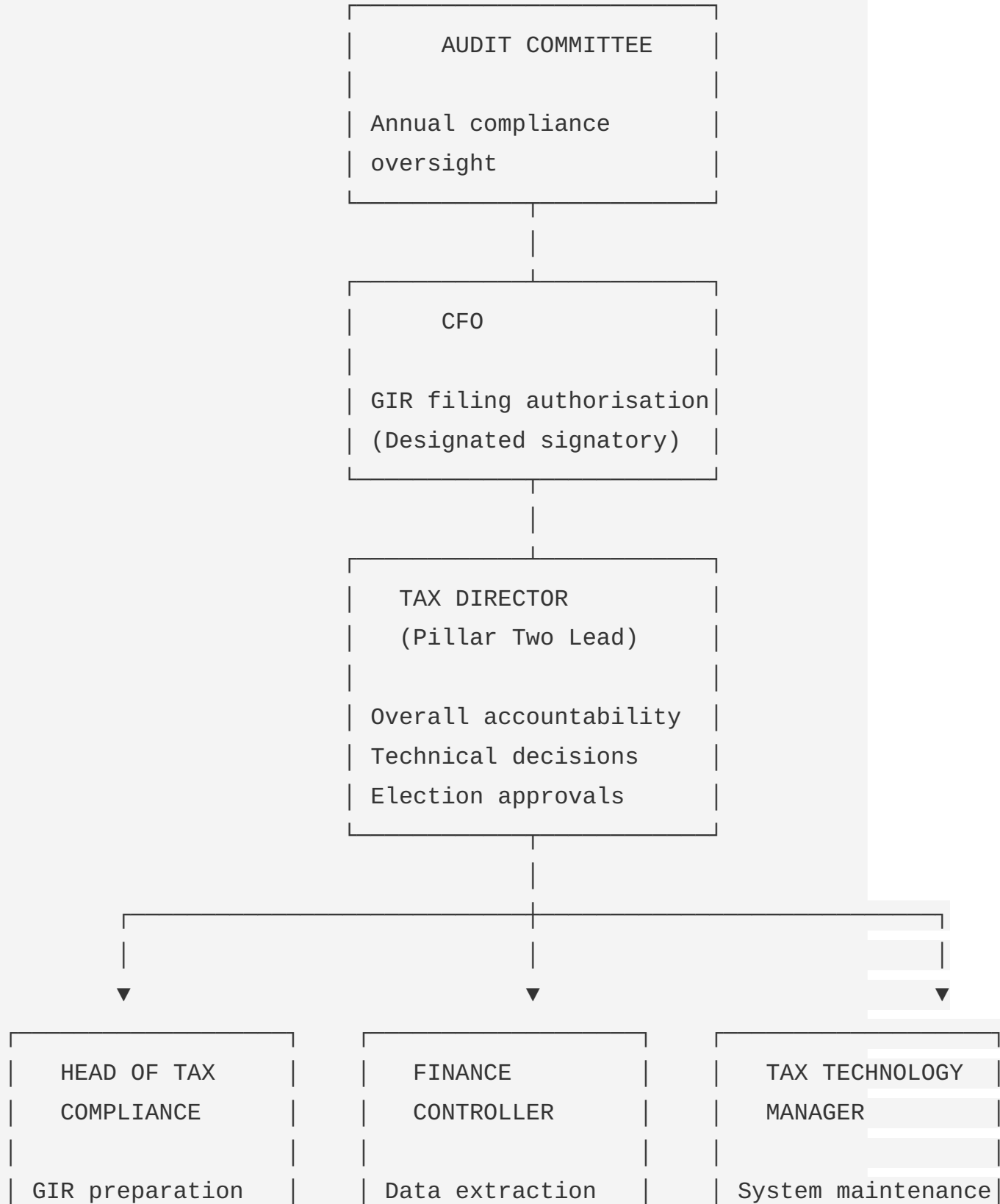
Phase	Period	Stratos Activity
Financial close	Jan-Mar 2026	Consolidation, statutory audits
Data extraction	Apr-May 2026	GloBE data from OneStream
Safe Harbour	Jun 2026	Test 7 jurisdictions
ETR calculations	Jul-Aug 2026	Calculate for SG, Cayman (non-SH)
Top-Up Tax	Sep 2026	€477,978 total liability
GIR preparation	Oct-Dec 2026	UK DFE filing preparation
Review	Jan 2027	Tax Director sign-off
Filing	Feb 2027	GIR filed via UK HMRC
Deadline	31 Mar 2027	15-month deadline

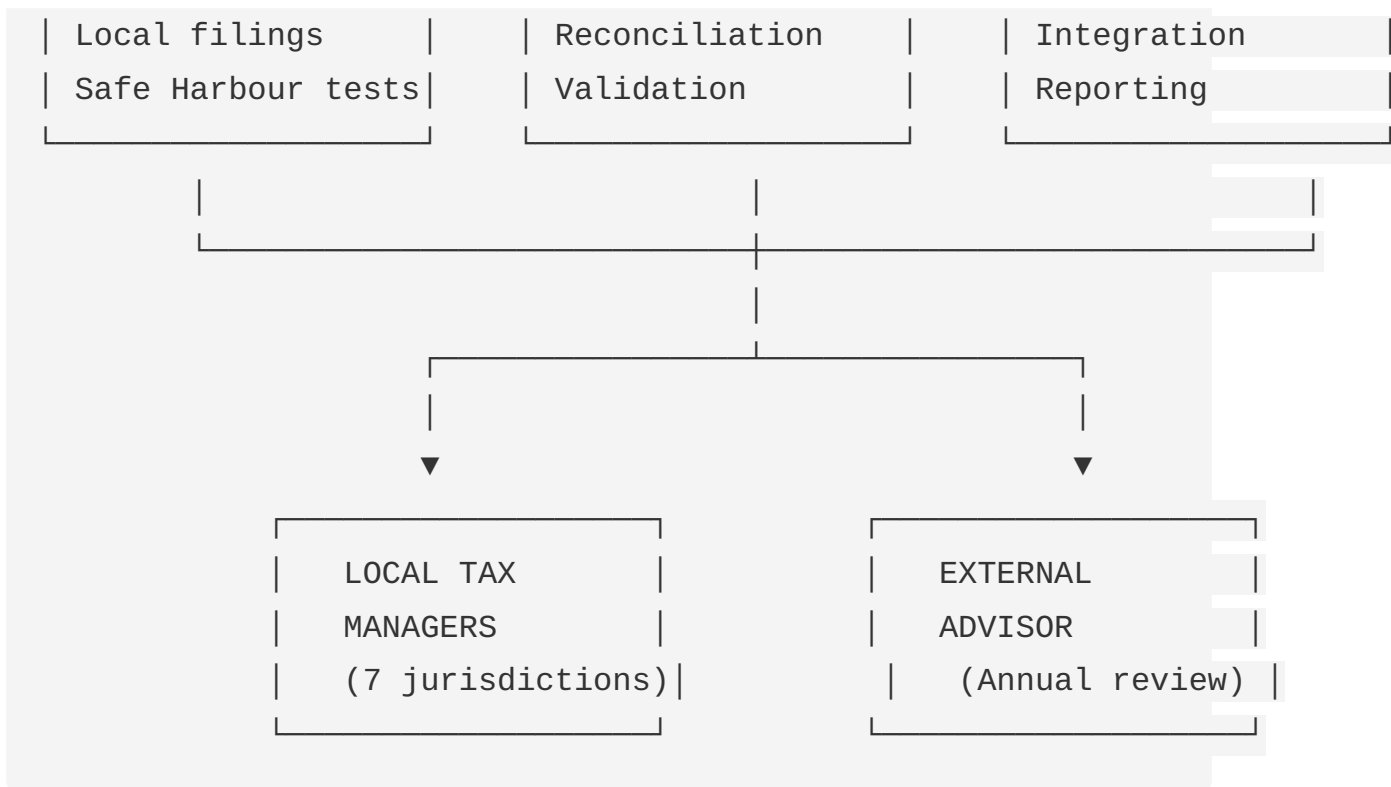
## Stratos Data Gathering Matrix

Data Category	Source	Owner	Extraction Date
Financial statements	OneStream	Group Finance	April 2026
Tax provision	ONESOURCE	Tax Provision Team	April 2026
Payroll costs	Workday	HR Finance	May 2026
Tangible assets	SAP	Fixed Assets Team	May 2026
Ownership structure	Diligent	Company Secretary	January 2026
CbCR data	CbCR Tool	Tax Compliance	April 2026

## Stratos Governance Structure

### STRATOS PILLAR TWO GOVERNANCE





## Stratos Control Matrix

Control	Description	Owner	Frequency
Entity completeness	Verify all CEs included	Company Secretary	Quarterly
Data reconciliation	Match to statutory accounts	Finance Controller	Each extraction
Calculation review	Independent recalculation	External Advisor	Annually
ETR reasonableness	Compare to prior year	Tax Director	Each calculation
Election tracking	Maintain election register	Head of Tax Compliance	Ongoing
GIR validation	Schema validation pre-filing	Tax Technology	Each filing

Control	Description	Owner	Frequency
Sign-off	CFO authorisation	CFO	Each filing

## Stratos Resource Requirements

Role	FTE Equivalent	Cost Estimate (Annual)
Pillar Two Lead (Tax Director)	0.2 FTE	Absorbed
Technical compliance	1.0 FTE	€85,000
Data gathering	0.5 FTE	€35,000
External advisory	—	€100,000
Technology (GloBE solution)	—	€50,000
<b>Total incremental cost</b>		<b>€270,000</b>

## 8. Common Pitfalls

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### 8.1 Pitfall 1: Treating Pillar Two as a One-Time Project

**Error:** Completing the first GIR filing and disbanding the project team.

**Correct approach:** Establish Pillar Two as an ongoing compliance process with permanent resources, documented procedures, and annual cycle planning.

### Pitfall 2: Siloed Data Gathering

**Error:** Tax function attempting to gather all data independently without Finance and IT involvement.

**Correct approach:** Establish cross-functional data ownership with clear extraction schedules, validation procedures, and escalation paths for data quality issues.

### Pitfall 3: Inadequate Documentation

**Error:** Relying on spreadsheet calculations without supporting documentation.

**Correct approach:** Maintain an audit-ready file with source references, calculation workings, review evidence, and sign-off trails for each jurisdiction.

### Pitfall 4: Missing Local Filing Requirements

**Error:** Focusing only on the central GIR and overlooking local QDMTT or notification requirements.

**Correct approach:** Map all local filing obligations, which may have different deadlines (some jurisdictions require Q3 filings). Monitor jurisdiction-specific guidance.

### Pitfall 5: No Contingency Planning

**Error:** Assuming data will be available on schedule without backup plans.

**Correct approach:** Build buffer time into the compliance calendar. Identify critical path dependencies and alternative data sources if primary sources are delayed.

### Pitfall 6: Underestimating System Requirements

**Error:** Attempting Pillar Two calculations in Excel for a 50+ entity group.

**Correct approach:** Assess technology needs based on group complexity. Invest in appropriate tools that provide audit trail, version control, and scalability.

## 9. Ongoing Compliance Process Checklist

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#### ONGOING COMPLIANCE PROCESS CHECKLIST

MNE Group: \_\_\_\_\_

Fiscal Year: \_\_\_\_\_

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#### SECTION A: ANNUAL PLANNING

<input type="checkbox"/> Compliance calendar confirmed for fiscal year	Due: _____
<input type="checkbox"/> Roles and responsibilities assigned	Due: _____
<input type="checkbox"/> Data extraction schedule agreed with Finance	Due: _____
<input type="checkbox"/> Safe Harbour pre-assessment completed	Due: _____
<input type="checkbox"/> Resource requirements confirmed	Due: _____

## SECTION B: DATA GATHERING

<input type="checkbox"/> Entity list updated (acquisitions, disposals)	Due: _____
<input type="checkbox"/> Financial data extracted	Due: _____
<input type="checkbox"/> Tax provision data extracted	Due: _____
<input type="checkbox"/> Payroll data extracted	Due: _____
<input type="checkbox"/> Tangible asset data extracted	Due: _____
<input type="checkbox"/> Data reconciled to source systems	Due: _____
<input type="checkbox"/> Data gaps identified and resolved	Due: _____

## SECTION C: CALCULATIONS

<input type="checkbox"/> Safe Harbour tests completed	Due: _____
- Jurisdictions qualifying: _____	
- Jurisdictions requiring full calculation: _____	
<input type="checkbox"/> GloBE Income calculated by jurisdiction	Due: _____
<input type="checkbox"/> Covered Taxes calculated by jurisdiction	Due: _____
<input type="checkbox"/> ETR calculated by jurisdiction	Due: _____
<input type="checkbox"/> SBIE calculated by jurisdiction	Due: _____
<input type="checkbox"/> Top-Up Tax calculated	Due: _____
<input type="checkbox"/> Allocation (IIR/UTPR) determined	Due: _____

## SECTION D: ELECTIONS

- 
- 
- |  |            |
|--|------------|
| <input type="checkbox"/> Election register reviewed                        | Due: _____ |
| <input type="checkbox"/> New elections evaluated                           | Due: _____ |
| <input type="checkbox"/> Irrevocable elections confirmed still appropriate | Due: _____ |
| <input type="checkbox"/> Elections documented and approved                 | Due: _____ |
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#### SECTION E: GIR PREPARATION

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- |   |            |
|---|------------|
| <input type="checkbox"/> GIR template populated               | Due: _____ |
| <input type="checkbox"/> XML validation completed (no errors) | Due: _____ |
| <input type="checkbox"/> Internal review completed            | Due: _____ |
| <input type="checkbox"/> Management sign-off obtained         | Due: _____ |
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#### SECTION F: FILING

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- |  |            |
|--|------------|
| <input type="checkbox"/> GIR filed with DFE jurisdiction     | Due: _____ |
| - Filing confirmation received: YES / NO                     |            |
| <input type="checkbox"/> Local QDMTT filings completed       | Due: _____ |
| - Jurisdictions filed: _____                                 |            |
| <input type="checkbox"/> Local notification requirements met | Due: _____ |
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#### SECTION G: POST-FILING

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- |   |            |
|---|------------|
| <input type="checkbox"/> Audit file archived                    | Due: _____ |
| <input type="checkbox"/> Lessons learned documented             | Due: _____ |
| <input type="checkbox"/> System/process improvements identified | Due: _____ |
| <input type="checkbox"/> Next year planning initiated           | Due: _____ |