NORGES BANK
INVESTMENT MANAGEMENT

Financial Accounting Standards Board
Attn. Technical Director
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FASB
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
United States

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FASB public consultation on Income Taxes (Topic 740)

We refer to the Financial Accounting Standards Board (FASB)'s public consultation on the Exposure Draft of the Proposed Accounting Standards Update on *Income Taxes (Topic 740) Disclosure Framework – Changes to the Disclosure Requirement for Income Taxes* published on 25 March 2019. We welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. NBIM is a globally diversified investment manager with about USD 1 trn in assets under management, including USD 245bn in US equities.

We have laid out our expectations of companies on tax and transparency in a public expectation document[1]. As an investor, NBIM expects multinational enterprises to exhibit appropriate, prudent and transparent tax behaviour. In line with the G20/OECD Principles of Corporate Governance, our starting point is that that company boards should oversee company tax strategies and planning. Company boards should also discourage practices such as aggressive tax avoidance, which do not contribute to the long-term interests of the company and its shareholders.

Our expectations to companies make clear how business operations that are driven by tax planning rather than long-term value creation may be more vulnerable to changes in regulation or enforcement. Institutional investors benefit from well-functioning, consistent, predictable and transparent tax reporting frameworks. To ensure harmonization and reduce uncertainty, we support international standards for the disclosure of taxes paid to governments. As a user of financial statements, we support FASB's objectives of improving the effectiveness of disclosures in the notes to financial statements.

We welcome FASB's proposal to modify the current disclosure requirement for income taxes. We note that disclosure of income (or loss) before income tax expense (and benefits) and disclosure of income tax expense (or benefit) disaggregated by domestic and foreign are already disclosure requirements of the Security and Exchange Commission. We agree that the costs of adding such disclosures to the FASB' standards are therefore likely to be low.

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[1] NBIM, Tax and Transparency, expectations towards companies.

We welcome FASB's clarifications on how these items should be reported, which should help contribute to more consistency in financial statements.

With regards to income taxes paid, we welcome the proposal for disaggregation by federal, state and foreign. We regret that the proposed modifications do not pursue previous suggestions that foreign income tax paid be disaggregated by country, or alternatively by major tax jurisdiction. In accordance with our expectation document on tax and transparency, we consider that taxes should be paid where economic value is generated and see country-by-country reporting as a core element of transparent corporate tax disclosure.

As an investor, NBIM analyses opportunities and risks to our investment. To us, it seems unlikely that transparent geographical reporting of value generation and the taxes paid in relation to that value, would necessarily impair competitive advantage. It is not clear that such reporting would lead to higher corporate tax rates as tax authorities already have access to country-by-country reports given OECD BEPS Action 13. Emerging public country-by-country reporting practices show that the risk of misinterpretation can be mitigated by qualitative disclosures, such as the one initially proposed by FASB regarding explanations in cases where income tax paid in a given country is low relative to income (loss). Although we recognise that GAAP- based reporting at country level would require process and system changes, it would also enable consistent and standardized reporting of taxes paid. We are concerned that limiting foreign income tax disclosure to an aggregate number will not provide investors such as NBIM with sufficient information for our financial analysis.

In terms of other proposed modifications to the disclosure requirements, we note the proposal not to require disclosures of enacted changes in tax laws that are probable to have an effect on the reporting entity in a future period. Although we recognise that such information is to some extent reported through Form 10-K, we believe that investors would benefit from more comprehensive information enabling us to better estimate the potential future effect of changes in tax laws or rates in jurisdictions where companies have significant operations.

We appreciate your willingness to consider our perspective.

Yours sincerely,

Carine Smith Ihenacho
Chief Corporate Governance Officer
Norges Bank Investment Management

Wilhelm Mohn
Head of Sustainability
Corporate Governance
Norges Bank Investment Management