



May 31, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-500: Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes (Proposed ASU)

Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. (“PNC” or “we”) appreciates the opportunity to comment on the Proposed ASU which has been issued by the Financial Accounting Standards Board (“the Board”) to improve the effectiveness of disclosures in the notes to financial statements.

We believe the Proposed ASU is greatly improved from original proposals, and more succinctly focuses on key income tax disclosures. However, we have concerns with certain aspects of the Proposed ASU including the disclosure of income (or loss) from continuing operations before intra-entity eliminations and the disclosure changes proposed for tax attribute carryforwards. Appendix A contains our detailed responses to the Questions for Respondents for this Proposed ASU.

We appreciate the opportunity to share our views with the Board. We welcome any questions or comments you may have on this letter. Please contact me (412.762.6543) with any questions about PNC’s comments.

Sincerely,

A handwritten signature in cursive script that reads "Michael Yenчек".

Mr. Michael Yenчек
Director of Accounting Policy
The PNC Financial Services Group, Inc.

cc: Mr. John (JJ) Matthews
Director of Finance Governance & Corporate Accounting
The PNC Financial Services Group, Inc.

Appendix A

Responses to Questions for Respondents

Question 1: Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

We do not believe the additional disclosures would result in a significant increase to decision-useful information over what is already disclosed within the existing framework. Further, in certain cases, the additional proposed disclosures may lead to misinterpretation of key tax values and relationships by investors.

We do not believe that the proposed elimination of disclosures would result in the reduction of any decision-useful information about income taxes. Specifically, we support the elimination of the future looking disclosures for unrecognized tax benefits, as these are somewhat hypothetical in nature and difficult to predict.

Please refer to our answers in the below questions for further detail regarding the remaining disclosure requirements.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

Many of the proposed disclosure requirements are both operable and auditable, but there are some exceptions, most notably, the pre-tax disclosures further discussed in Question 4 below.

Some of the additional proposed disclosures require an enhanced level of analysis not currently available at the time of financial statement reporting. For example, the additional disclosures pertaining to tax attribute carryforwards are not tracked internally on an annual (first 5 years), then longer term, and / or indefinite basis, by jurisdiction. The disaggregation of this data would be time consuming to summarize on an annual basis, and would at best represent estimates of the underlying values, as final tax return values would not yet be known. Further, while we agree with the change in presentation for carryforwards to be that of a net basis, which is in line with the presentation within the deferred tax disclosures, the further increased disclosure around carryforwards may not provide additional decision useful information, as the total amount of carryforwards (and any associated valuation allowances), are already clearly disclosed within the deferred tax tabular rollforwards.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

There would be some incremental costs associated with preparing, aggregating, and disclosing additional tax disclosures, but we would not expect these costs to be significant. Refer to our answers in the below questions for further detail.

Question 4: One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

We do not believe this requirement is operable as the existing financial statement disclosure of pretax and net income are reported on a consolidated worldwide basis after intercompany eliminations. The removal of intercompany eliminations and further disaggregation of foreign vs. domestic earnings would introduce new pre-tax information within the income tax footnote and would not seem to be appropriate. Further, taxes are computed based on multiple different tax filing groups, which may not align clearly with a simple disaggregation of earnings by jurisdiction. Complexities associated with the different tax filing groups and jurisdictions make the addition of disaggregated pretax earnings potentially distortive and less useful.

Question 5: Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?

We believe it is operable to disaggregate income tax expense by foreign, federal and state jurisdictions, and would like to confirm the definition of "major tax jurisdiction" to be equivalent as such. However, we do not believe the disaggregation at this granular level would add decision useful information. As noted above, the total amount of tax expense recorded within income taxes on an annual basis may not be comparable to the disaggregated pre-tax values proposed. Further, the actual cash tax outflows would not be comparative to total tax expense values as a result of a lag in cash taxes paid on an annual return filing basis in comparison to the previously recorded provision for income taxes recorded within the financials. Investors may try to draw correlations between the additionally disclosed values which would not inherently exist within the computations required in accounting for income taxes.

Question 6: The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.

In consideration of the reduced federal statutory rate enacted as a part of the Tax Cuts and Jobs Act, we would note that the continued use of a 5 percent threshold results in additional, less significant rate reconciliation items being disclosed than those under the previous higher tax rate. The Board could consider a higher threshold in order to highlight the more significant rate reconciling items, but we are not opposed to the continued use of the 5 percent threshold. Increasing explanations and disclosures for year over year comparison items however, should be considered for only those items which are more significant in nature, as all rate reconciling items

will fluctuate normally on a year to year basis as a result of fluctuations in pre-tax GAAP earnings.

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

No, we have not noted any additional disclosures which would be required as a result of the Tax Cuts and Jobs Act.

Question 8: Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

No, we have not noted any disclosures which should be removed or modified as a result of the Tax Cuts and Jobs Act, outside of those items noted above.

Question 9: The proposed amendments would replace the term public entity in Topic 740 with the term public business entity as defined in the Master Glossary of the Codification. Do you agree with the change in scope? If not, please describe why.

We did not note a significant change in scope as a result of this amendment.

Question 10: Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

We support a prospective application of the proposed disclosures as retrospective application would not be cost effective for what we view as a limited benefit. In order to retrospectively apply the proposed disclosures, we would need to manually adjust prior year system information since the data needed to comply with the proposed disclosures was not captured.

Question 11: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

We believe it would take a considerable amount of time to implement the proposed changes, as it would require changes to systems, processes, controls, and additional data collection. Assuming prospective transition is permitted, we recommend that any proposed changes be effective for reporting periods beginning after December 15, 2020.