

CREDIT SUISSE

31 May 2019

Technical Director
Financial Accounting Standards Board (the 'Board')
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
USA
director@fasb.org

RE: File Reference No. 2019-500 – Proposed Accounting Standards Update, Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes (the 'Proposed ASU')

Credit Suisse Group ("CSG") appreciates the opportunity to express our views in relation to the Proposed ASU. CSG's consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States ("US GAAP").

As the current disclosure requirement per Topic 740 and SEC regulation S-X are already comprehensive, we do not feel that the benefits regarding certain of the proposed disclosures outweigh the cost. We have both conceptual and practical reservations regarding certain aspects of the proposed disclosure requirements as discussed below.

Disaggregation of items by federal/national, state and foreign

The Proposed ASU adds the requirement to disclose various income tax items disaggregated between federal/national, state and foreign. As a foreign private issuer CSG is not domicile in the United States of America ("US") and so the guidance on the application of "state" is unclear. We request that the Board clarify application of "state" to non US jurisdictions. Specifically, we request that the Board clarify if the "state" requirement be applicable to non US jurisdictions such as "provincial" or "cantonal" or if the application of the requirement is specific to states within the US. We recommend that "state" only be applicable to US domicile entities. Application to foreign entities would not necessarily be appropriate as many countries do not have an equivalent jurisdictional level of "state" and so it could not be applied on a consistent basis across all financial statements.

Disaggregation of income tax paid by federal, state and foreign

Income tax accounting and related disclosures are calculated on a liability approach and not on a cash basis. The amount of income tax actually paid is subject to significant variability between periods due to changes in deferred tax, audit settlements and the utilization of income tax attributes such as net operating losses and credit carryforwards which can vary significantly by jurisdiction. Furthermore, income tax paid during a specific period can include a combination of tax payments of prior, current or future periods. As a result it does not reflect the income tax expense/benefit of the reported period itself and could be misleading. In our view the requirement to disaggregate income tax paid between federal/national, state and foreign would not provide the users of the financial statements with any additional benefit and could potentially be misinterpreted. We believe the current requirement under ASC Topic 230, *Statement of Cash Flows*, is sufficient.

Tax rate reconciliation

The Proposed ASU modifies ASC 740-10-50-12 to align the tax rate reconciliation to SEC regulation S-X by requiring all entities to disclose rate reconciling items that are more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal or national tax rate. We recommend that the Board in conjunction with the SEC consider to remove or increase the threshold to a more substantial level. We are concerned that instances of low current federal/national tax rates could result in the disclosure of reconciling items that are immaterial to the financial statements.

The proposed amendments to this paragraph also require year-over-year explanatory disclosure of all rate reconciling items. It is unclear that this requirement would provide useful decision-making information. For instance 'significant' reconciling items could be solely due to changes in ordinary income (e.g. profitability in one year and a loss position in the next). In our view a financial statement user's objective would be to understand the difference between the statutory tax rate and effective tax rate (income tax expense applied to the pretax income from continuing operations) as provided under current disclosures.

Deferred tax assets attributable to carryforwards (proposed ASU 740-10-50-6A)

We believe that the disclosure of deferred tax assets attributable to carryforwards should continue to focus on the expiration dates of those carryforwards. It should not require the inclusion of a valuation allowance associated with those deferred tax assets nor should it include unrecognized tax benefits. To achieve the proposed disclosure it would be require significant judgement to schedule the reversal of deferred assets more precisely to determine a valuation allowance, which is inconsistent with ASC740. Currently, the amounts and expiration dates of net operating losses and tax credit carryforwards, as well as deferred tax assets do not require scheduling (with exceptions described in ASC 740-10-55-15) and deferred tax assets are evaluated for a valuation allowance typically on an aggregate basis.

Potential proposed amendment to disaggregate of income tax/benefit by major tax jurisdiction

We can appreciate that having an understanding of foreign tax matters is important to the users of the financial statements and while this potential proposed amendment could provide some context for where in the world a company incurs income taxes, we do not support it. This type of disaggregation without a more detailed understanding of entity structure and the complexity of domestic and international tax rules related to international activities as well as additional details on pretax income/loss and tax expense/ benefits by major jurisdiction, could lead financial statement readers to inaccurate conclusions. Additionally, this level of disaggregation may require an additional cost investment to upgrade systems and introduce operational complexity on entities that operate in numerous jurisdictions to provide this level of disaggregation. Finally, the SEC regulation S-X requires only disaggregation between domestic and foreign, so we question why additional reporting above and beyond the SEC requirement is needed here particularly in light of other elements of the Proposed ASU where alignment is contemplated as well as another current project which supports convergence with SEC disclosure guidelines.

Transition and effective date

CSG supports prospective application of the Proposed ASU with no restatement of prior periods. We believe that the benefits of retrospective application would not justify the additional cost and effort that would be needed to meet this requirement. The recent adoption of significant amendments (ASU 2016-02 *Leases*) and the upcoming adoption of ASU 2016-13 *Financial Instruments – Credit Losses* in 2020 require significant amounts of accounting, systems and tax resources. Therefore we would recommend an effective date for reporting periods beginning after 15 December 2020. This would allow adequate time to effectively implement new disclosure requirements including systems changes to collect the necessary data.

If you have any questions or would like any additional information on the comments we have provided herein, please do not hesitate to contact Todd Runyan in Zurich at +41 44 334 8063 or Emily Schulz in Raleigh at +1 919 994 1259.

Sincerely,



Todd Runyan
Managing Director
Global Head of the Accounting Policy and Assurance Group



Emily Schulz
Vice President
Accounting Policy and Assurance Group