NORGES BANK
INVESTMENT MANAGEMENT

Financial Accounting Standards Board
Attn. Technical Director
File Reference No. 2023-ED100
FASB, 801 Main Avenue,
PO Box 5116
Norwalk, CT 06856-5116
United States

25 May 2023

FASB Exposure Draft on the Proposed Accounting Standards Update - 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) Improvements to Income Tax Disclosures* published on 15 March 2023. 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, with the objective of ensuring the highest possible return. NBIM is a globally diversified investment manager with 1,262 billion USD in assets under management as of the end of 2022.

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 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 are informed by our view that business operations driven by tax planning rather than long-term value creation may be more vulnerable to enforcement or regulatory changes. Institutional investors benefit from well-functioning, consistent, predictable and transparent tax reporting frameworks. To promote consistency 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 enhancing the transparency and decision usefulness of income tax disclosures. We welcome the improvements to the rate reconciliation disclosures, as well as the requirements for more granular information on income taxes paid. As detailed below, we believe requirements for

[1] Tax transparency (nbim.no)

additional country-by-country information would further enhance the utility of the proposed disclosures.

Our comments are focused on the specific questions listed below. We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely,

Carine Smith Ihenacho
Chief Governance and Compliance Officer

Wilhelm Mohn
Global Head, Corporate Governance

<u>Question 1</u>

1) The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.

> *a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.*
>
> *b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories? If so, please describe the specific income tax effect and explain how it should be categorized and why.*
>
> *c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.*

We generally support the proposed improvements to the rate reconciliation framework. The decision utility of this information, as discussed below in relation to Question 4, would be enhanced if additional guidance were provided to ensure consistency in the treatment of certain income tax effects for which the proper categorization may be unclear. For instance, rules to ensure the consistent treatment of incremental rate effects attributable to applicable alternative minimum tax provisions may be warranted.

We believe the five percent threshold strikes a reasonable balance between the value of the enhanced reporting to investors and the added administrative cost for companies.

Question 3

3) The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as the nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not.

We agree with the proposed disclosure. Contextual information explaining significant year-over-year changes to reconciling items would facilitate our understanding of such items and allow us to form a more complete view of company tax management, risks and opportunities.

Question 4

4) For investors, would the proposed amendments to the rate reconciliation disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about rate reconciliation should the Board require?

The granular rate reconciliation required by the proposal would enable NBIM and other investors to better evaluate companies' exposure to tax risks and opportunities and the sustainability of their effective tax rates. Current reporting practices often do not allow for a clear understanding of the drivers of a company's effective tax rate and their exposure to regulatory change. Standardisation of this more granular rate reconciliation would greatly enhance the value of such reporting to investors, providing a clearer picture of company exposure to tax risks and opportunities and allowing for better tracking of tax characteristics over time.

Questions 9 & 10

9) The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an annual basis by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.

10) For investors, would the proposed amendments to the income taxes paid disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about income taxes paid should the Board require?

We believe that the proposed disclosures on taxes paid by jurisdiction will be a marked improvement over current practice and will provide significant additional decision-useful information. We also believe that such disclosure should be coupled with information on revenue and taxable income. While we understand the rationale underlying the choice of the five-percent threshold, we believe that disclosure of taxes paid across all jurisdictions would greatly enhance the value of the disclosures. When evaluating companies' exposure to tax risk, in certain contexts extremely low tax payments in relation to economic activity in a particular jurisdiction can constitute a potential risk factor. The five-percent threshold may therefore paradoxically result in less information with regard to those jurisdictions where the tax risk is highest. While company exposure to such jurisdictions may be indicated to some extent through the rate reconciliation disclosures, we believe full country-by-country reporting of taxes paid, accompanied by corresponding revenue and taxable income figures, greatly increases the utility of these disclosures to investors. We would thus urge the elimination of the five-percent threshold in this context.

We also believe that taxes paid should be reported on a gross basis, with separate reporting of refunds. Netting refunds, which may relate to prior periods, against gross taxes paid will make it difficult to interpret these figures in many cases, reducing their decision-utility.