Dear Director Cosper,

Re: Comments on the Exposure Draft for the Proposed Accounting Standards Update to Income Taxes (Topic 740)

The PRI is writing to you in support of the efforts of the Financial Accounting Standards Board to better align disclosures of the tax policies and practices of multinational companies with investors’ needs. In particular, we welcome the proposed disclosure of disaggregated information on taxes from companies. We would encourage consideration of additional reporting requirements that would enhance tax transparency. We provide further detail below.

About the PRI

The Principles for Responsible Investment (PRI) is the world’s leading initiative on responsible investment. The PRI has over 1800 signatories globally with over $70 trillion in assets under management.¹ The US is the PRI’s largest market with 347 signatories and over USD$36 trillion in assets under management.

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. It is driven by a growing recognition in the financial community that evaluation of ESG issues is a fundamental part of assessing portfolio value and investment performance.

PRI’s work on corporate tax

Corporate tax responsibility has been increasingly identified as a key area of interest among PRI members. Investors are keen to understand how their investee companies are positioned on tax issues, given the major tax-related regulatory changes that are occurring around the world. However, investors lack sufficient granularity on corporate taxes to understand risks and opportunities that may arise from these regulatory changes. A corporate reporting requirement for disaggregated information on corporate taxes paid along with additional disclosure on revenue, FTE employees, net income and assets across

¹ https://www.unpri.org/directory/
the countries in which companies are operating will be a significant step in enhancing transparency. It will also enable informed company-investor dialogue on tax related issues.

Recommendations on corporate income tax disclosure

In 2015, the PRI convened an investor taskforce on corporate tax responsibility to facilitate better understanding of tax related risks and encourage dialogue with investee companies. In March this year, the PRI and the investor taskforce developed a series of recommendations for enhancing corporate tax transparency (a copy is also attached). The recommendations endorse company disclosure of meaningful information in the following areas:

- An overarching tax policy that discusses the company's governance and oversight frameworks and management systems for managing tax-related risks.
- An analysis and explanation of the drivers of the gap between the company's effective tax rate shown on income statement and the company's weighted average statutory rate based on the firm's geographic sales mix.
- An overview of the key tax strategies driving the changes in the company's unrecognized tax benefit (UTB) balance.
- Disclosure on intracompany debt, including the countries where the debt is held, the amount of intracompany debt, and the average interest rate paid by other subsidiaries on that debt.
- The most financially material tax incentives across jurisdictions; information on expiries of all incentives, investment requirements and commentary regarding the likelihood that such incentives will not be renewed should be provided.
- Information on revenues, taxes paid, FTE employees, net income and assets across all countries.

The PRI recommends that the FASB integrates them in finalizing the Proposed Accounting Standards Update to Income Taxes. Increased disclosure will provide investors with sufficient information to assess a company's corporate tax risks and opportunities.

Sincerely,

Fiona Reynolds
Managing Director
INVESTORS’ RECOMMENDATIONS ON CORPORATE INCOME TAX DISCLOSURE

Investors would benefit from an enhanced level of corporate income tax related disclosure by companies. The following list includes the disclosure recommendations of a group of global investors who were brought together by the Principles for Responsible Investment (PRI).

The items listed in this document do not refer to other types of corporate taxes and contributions such as VAT, sales taxes or royalties.

Companies are encouraged to disclose information, addressing tax policy, governance and performance to the highest degree possible and with increasing quality over time. This information may be provided through multiple channels. These include a stand-alone tax policy, the proxy circular, the annual report or sustainability report and/or the company website. Companies should make an effort to cross reference these presentations in order to allow investors to evaluate a company's tax strategy and exposure in context. To that end, investors would benefit from clear links between tax risks, tax strategy and performance, wherever possible.

GLOBAL INVESTOR TASKFORCE ON CORPORATE TAX RESPONSIBILITY

This document has been developed in collaboration with the following organisations:

- Alliance Trust plc (ATI)
- Arisaig Partners (Asia) Pte Ltd
- Bâtirente (advised by Æquo SES)
- Domini Impact Investments LLC
- ERAFP (French public service additional pension scheme)
- Legal & General Investment Management
- MFS Investment Management
- NEI Investments
- Rathbone Brothers plc
- Triodos Investment Management.
A comprehensive tax policy would:

- outline the organisation and board view on corporate income tax, with particular reference to its impact on the overall profitability of the company, as well as its broader economic impacts;
- discuss how the company’s tax policy protects stakeholders’ trust, enhances the company’s license to operate and aligns with its corporate values/code of conduct;
- state the company’s risk appetite in relation to tax activities, including examples of acceptable and unacceptable practices and a narrative on major tax risks;
- provide an overview of the firm’s general tax structure and strategies, including the linkage between where profits are booked and the factors that indicate genuine commercial activity in those locations (e.g. how transfer prices are set within the group and how tax havens are used, if applicable);
- describe the company’s current relationships with tax authorities and other stakeholders (i.e. consumers and civil society organisations) and explain if engagement with stakeholders has impacted the tax policy;
- describe the process in place to interpret the law and deal with ambiguity;
- discuss advocacy and lobbying activities on tax including membership in trade associations active on tax policy;
- include any reference to third party standards and guidelines covering tax related issues;
- commit to ongoing and transparent tax-related reporting.

For a broader exploration of why aggressive tax strategies are material to investors, more information about red flags to look out for and the complete list of questions to consider asking companies, please read the full guide available here or contact:

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