FASB FINANCIAL ACCOUNTING STANDARDS BOARD

401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
tel: 203.847.0700
www.fasb.org

RUSSELL G. GOLDEN
Chairman

December 3, 2013

Mr. John Davidson
Mrs. Cynthia P. Eisenhauer
Co-Chairs, Standard-Setting Process Oversight Committee
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Davidson and Mrs. Eisenhauer:

Response of the Financial Accounting Standards Board

The Financial Accounting Standards Board (the FASB or the Board) is pleased to provide this response to the Financial Accounting Foundation's *Post-Implementation Review (PIR) Report on FASB Statement No. 109, Accounting for Income Taxes*, dated November 2013 (the PIR Report).

The FASB continually strives to improve U.S. generally accepted accounting principles (GAAP). The Board believes post-implementation reviews are an important feedback mechanism because they provide insights into the effectiveness of our standards and opportunities to improve the standards-setting process. The PIR process provided some important stakeholder feedback on the benefits and costs of Statement 109 in light of actual experience using and preparing the information for an extended period of time.

The FASB plans to continue to evaluate the PIR Report findings following the review procedures in the *FASB Rules of Procedure* (Section IV.H.5) that include criteria for the review or reexamination of existing standards. Under those criteria, review of existing standards might be indicated if information or evidence is obtained that had not previously or adequately been considered by the Board, such as evidence that the transactions or the environment has changed significantly since the standards were issued, that there have been consequences or costs that differ significantly from the Board's expectations, or that investors and other users broadly do not find the information useful. Those criteria were designed to ensure that the financial reporting system is not unduly burdened by the system-wide cost of frequent changes in accounting requirements.

Evaluation of the Findings in the PIR Report

The PIR Report states that Statement 109 adequately resolved the issues underlying its stated need but that Statement 109 may not have reduced complexity associated with accounting for income taxes. The PIR Report notes, however, that research was inconclusive about whether the continued complexity is a result of the requirements of Statement 109, factors occurring after the issuance of Statement 109 (for example, significant changes in the business environment and tax laws, along with increased foreign operations by U.S. companies), or both.

The PIR Report observes that some preparers and practitioners find that certain aspects of Statement 109 are operationally challenging, including intraperiod tax allocation, intercompany transfer of assets, and situations in which a deferred tax liability is not recognized for temporary differences related to earnings determined to be indefinitely reinvested in foreign subsidiaries.

The PIR Report states that information resulting from the application of Statement 109 provides investors with decision-useful information; however, the information may not be detailed enough for users to analyze the cash flows associated with income taxes and to analyze earnings determined to be indefinitely reinvested in foreign subsidiaries.

Intraperiod Tax Allocation

The PIR Report indicates that some preparers and practitioners have difficulty applying the requirements of Statement 109 about intraperiod tax allocation (for example, allocating income taxes to continuing operations and discontinued operations). The FASB appreciates that certain aspects of intraperiod tax allocation are challenging, and we plan to seek input from stakeholders about whether there are any cost-effective solutions that would reduce complexity without significantly reducing the usefulness of the information. In addition, we plan to evaluate whether the FASB's proposals in the

Reporting Discontinued Operations project[1] would reduce the frequency of preparers and practitioners applying the intraperiod tax allocation guidance.

Intercompany Transfer of Assets

The PIR Report states that income tax accounting for intercompany transfer of assets (for example, intercompany sales of inventory from a subsidiary in one tax jurisdiction to another tax jurisdiction) is operationally challenging for preparers and practitioners. As addressed in the Basis for Conclusions of Statement 109, the FASB considered several accounting approaches for this area. The FASB understands there is some inherent complexity in accounting for the income tax consequences of an intercompany transfer of assets when the assets are not sold to a third party in the same period. We plan to seek input from stakeholders to understand the specific difficulties in this area and evaluate whether there are any cost-effective solutions that would reduce complexity without significantly reducing the usefulness of the information.

Earnings Indefinitely Reinvested in Foreign Subsidiaries

The PIR Report states that situations in which a deferred tax liability is not recognized for temporary differences related to earnings determined to be indefinitely reinvested in foreign subsidiaries are challenging for preparers and practitioners. Furthermore, the PIR Report indicates that disclosures may not be detailed enough for users to analyze earnings determined to be indefinitely reinvested in foreign subsidiaries. The FASB understands there is complexity in the accounting for income taxes for a U.S. entity that operates in multiple tax jurisdictions and has foreign earnings that are indefinitely reinvested.

U.S. GAAP on the accounting for earnings indefinitely reinvested in foreign subsidiaries initially was issued in 1972 by the Accounting Principles Board, which was a predecessor standards setter to the FASB. The guidance was issued to eliminate diversity in practice that existed at that time in accounting for deferred taxes attributable to earnings indefinitely reinvested in foreign subsidiaries. Although the accounting guidance has not changed significantly since that time, the FASB has reevaluated the guidance several times as a result of our ongoing dialogue with stakeholders. We considered the guidance in 1987 when the Board issued FASB

[1] The Board completed its redeliberations on the project on November 13, 2013, and expects to issue guidance in the first quarter of 2014.

Statement No. 96, *Accounting for Income Taxes*, in 1992 when the Board issued Statement 109, and in 2004 when the FASB evaluated accounting for income taxes in connection with a convergence project with the International Accounting Standards Board. Since that time, the FASB has continued to monitor tax law changes, including when we issued guidance in 2004 to assist preparers and practitioners with addressing the accounting implications of the American Jobs Creation Act of 2004.

The FASB plans to perform outreach with preparers and practitioners to understand what aspects of accounting for earnings indefinitely reinvested are operationally challenging and whether there are any cost-effective solutions. In addition, the FASB plans to perform outreach to understand what additional information would be useful to users and the costs of providing the information.

Cash Flows from Income Taxes

The PIR Report indicates that income tax information provided in the financial statements may not provide enough detail for users to analyze the cash flows from income taxes. The FASB observes that entities are required to present or disclose cash paid for income taxes each period. As addressed in the Basis for Conclusions of Statement 109, the FASB considered whether disaggregated information about cash flows from income taxes should be required, and the Board concluded that disaggregated information should not be required. The FASB plans to perform outreach to understand what additional cash flow information would provide decision-useful information and the costs of providing the information.

FASB's Plan to Address Findings in the PIR Report

The FASB plans to analyze the findings in the PIR Report, including performing outreach with financial statement users, preparers, auditors, and others. The objective of the outreach is to understand stakeholders' specific concerns and whether there are any cost-effective solutions to address the concerns. The FASB also plans to understand stakeholders' views about the priority of addressing those concerns relative to the other projects the Board could undertake to enhance U.S. GAAP.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

On behalf of the FASB, I would like to thank the FAF for undertaking this important process and all of the stakeholders that provided input on Statement 109 for the benefit of those that use U.S. GAAP.

Sincerely,

Russell G. Golden

cc: FAF Board of Trustees, Teresa S. Polley, Kimberley R. Petrone