

annual period of adoption. If an entity other than a public business entity elects to early adopt the pending content that links to this paragraph, it must also elect to early adopt the pending content that links to paragraph 740-10-65-5.

- ▶ The proposed guidance does not state explicitly that entities should assess the realizability of any deferred tax assets recognized upon adoption of the Proposed Standard. In the absence of clarification, we believe that entities may overlook this requirement within ASC 740. Additionally, we believe that the guidance should clarify that any valuation allowance recorded against deferred tax assets recognized on the adoption date should be part of the cumulative-effect adjustment to retained earnings. Therefore, we believe that ASC 740-10-65-4(e) should be amended as follows.

740-10-65-4(e): The pending content that links to this paragraph shall be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption for the recognition of the income tax consequences of intra-entity asset transfers occurring before the effective date. Any deferred tax assets recorded on the date of adoption shall be assessed for realizability in accordance with the provisions of Topic 740. Any valuation allowance recognized on the date of adoption for deferred tax assets recognized as a result of the adoption of the pending content shall be recorded as part of the cumulative-effect adjustment to retained earnings.

- ▶ We believe the transition disclosures described in paragraph 740-10-65-4(f) should be provided in the period the entity adopts the Proposed Standard. We believe the language, as currently drafted, could be interpreted to mean that disclosures are required in the first annual period after the period that includes the adoption, rather than in the annual period of adoption. In addition, we suggest deletion of the phrase that would require disclosures in each interim period within the annual period of adoption. With the deletion, the disclosure requirement would align with the requirements in ASC 250, *Accounting Changes and Error Corrections*, and the Proposed ASU, *Balance Sheet Classification of Deferred Taxes*.

740-10-65-4(f): In the first interim and annual period of after adoption, ~~and the interim periods within that first annual period,~~ a public business entity shall disclose the following:

1. The nature of and reason for the change in accounting principle
2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item(s), and any affected per-share amounts for the current period
3. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the period of adoption.