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2016-270
Comment Letter No. 6

September 28, 2016
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft, *Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes* (File Reference No. 2016-270)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes*. We support the Board's objective to improve the effectiveness of financial statement disclosures by focusing on information that is most important to users.

We generally believe that the proposed amendments would result in more effective, decision-useful information about income taxes, and would be consistent with the Board's objectives for its Disclosure Framework Project. However, there are some changes that we believe would promote greater consistency when applying the proposed guidance:

Clarify definitions of foreign and domestic

We believe that the Board should clarify its definitions of *foreign* and *domestic*, and explain how an entity should identify the *applicable statutory* tax rate when preparing its tax rate reconciliation. While GAAP and SEC guidance include these terms, some multinational entities have found the guidance difficult to apply, and the SEC staff continues to comment on registrants' interpretations of that guidance.

We also believe that the Board should provide guidance about how an entity should present intercompany transactions in the disclosures of pretax income and income tax expense disaggregated between foreign and domestic. The financial reporting consequences of intercompany transactions will be more significant when entities adopt the forthcoming ASU, *Intra-entity Transfers of Assets Other than Inventory*, and we believe users would benefit from consistent presentation requirements.

Modernizing terms

We identified terminology changes that we believe the Board should make to improve consistency in applying the proposed guidance about indefinitely reinvested foreign earnings. We recommend the Board replace the term *marketable securities* with terms that are defined in the Master Glossary. While we believe the concept of marketable security generally is understood, it is not defined and likely will lead to inconsistent disclosure. We also believe the Board should replace the term *undistributed earnings* with *outside basis difference* so that the proposed disclosures appropriately capture the entire outside basis difference for which an entity has or has not recognized a deferred tax liability.

We have included additional suggestions in our responses to selected Questions for Respondents. Those responses are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Angela Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP



Appendix – Responses to Selected Questions for Respondents

Question 1:

Would the proposed amendments result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

We generally believe that the proposed amendments would result in more effective, decision-useful information about income taxes and would be consistent with the Board's objectives for its Disclosure Framework project. However, we question whether the proposed requirement to disclose the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries would provide relevant and reliable information for financial statement users who are trying to evaluate the magnitude of an entity's potential future tax obligation. For example, it is common for governments to legally or contractually restrict an insurance company's liquid assets. Similarly, a bank's liquid assets may be practically restricted because they are necessary to support customer deposits. As a result, we believe it may be misleading to users to disclose the amounts of these assets without providing the context for understanding the limitations associated with possible future repatriation of these funds.

We do not believe that the proposed amendments would eliminate decision-useful information.

Question 2:

Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We believe the following changes would promote greater consistency when applying the proposed guidance.

Clarify definition of foreign and domestic

We believe the Board should clarify the definition of *foreign* and *domestic* and explain how an entity should identify the *applicable statutory* tax rate when preparing its tax rate reconciliation. While GAAP and SEC guidance include these terms, some multinational entities have found the guidance difficult to apply, and the SEC staff continues to comment on registrants' interpretations of that guidance.

Thus, we believe the Board should:

- Define, and consistently refer to, *foreign* amounts as those related to a country outside of a reporting entity's *country of domicile*, and *domestic* amounts as those related to a reporting entity's country of domicile;
- State that domestic amounts include federal/national tax, state/regional tax, and local tax;
- Clarify that an entity should begin its rate reconciliation from the *applicable statutory federal/national income tax rate*; and
- Require an entity to disaggregate pretax income and income tax into foreign, federal/national, and other (i.e., state/regional and local) so that the categories of income statement related



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disclosures would be consistent with the proposed categories of balance-sheet-related disclosures and existing SEC rules.

We also believe that the Board should provide guidance about how an entity should present intercompany transactions in the disclosures of pretax income and income tax expense disaggregated between foreign and domestic. The financial reporting consequences of intercompany transactions will be more significant when entities adopt the forthcoming ASU, *Intra-entity Transfers of Assets Other than Inventory*, and we believe users would benefit from consistent presentation requirements.

Modernizing terms

We identified terminology changes that we believe the Board should make to improve consistency in applying the proposed guidance about indefinitely reinvested foreign earnings. We recommend that the Board replace the term *marketable securities* with terms that are defined in the Master Glossary. While we believe the concept of marketable security generally is understood, it is not defined and likely will lead to inconsistent disclosure. We also believe the Board should replace the term *undistributed earnings* with *outside basis difference* so that the proposed disclosures appropriately capture the entire outside basis difference for which an entity has or has not recognized a deferred tax liability.

Other

We also recommend that the Board clarify that the proposed disclosure in paragraph 740-10-50-22, which would require an entity to “describe an enacted change in tax law that is probable to have an effect in a future period,” would be required only if the effect is material.

Question 4:

The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?

We believe the Board should clarify the objective of this disclosure. Without understanding the disclosure objective, we believe entities will inconsistently evaluate whether income taxes paid to a foreign country are significant. We believe some entities may view significance only quantitatively, while others may view it qualitatively. We recommend that the Board clarify the objective to minimize diversity in practice.

Question 5:

The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27–BC40 of this proposed Update). Is there other information that the



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Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?

We believe the Board should replace the term *undistributed earnings* with *outside basis difference* so that the proposed disclosures appropriately capture the entire outside basis difference for which an entity has or has not recognized a deferred tax liability. We believe this revision would refocus the disclosure requirement from the earnings portion only to the total outside basis difference. We believe the total outside basis difference is more relevant information because it is the amount that would be used to compute the deferred tax liability and is consistent with the balance sheet method for recognizing income taxes under ASC Topic 740.

Question 6:

The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.

We believe that the Board should exempt private companies from certain disclosures. The proposed exemptions are consistent with the types of disclosure exemptions that exist elsewhere in ASC Topic 740 for private companies.

Question 7:

Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We suggest that the Board require an entity to disclose the gross increase and gross decrease in the valuation allowance during the reporting period. We believe the gross changes would provide more decision-useful information to users than the net change. Disclosing only the net change could obscure significant increases and decreases in individual tax jurisdictions that may be relevant when evaluating an entity's worldwide tax position.

Question 8:

Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We have not identified other disclosure requirements that we believe should be removed.

Question 9:

Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.



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We believe that an entity should have the option to retrospectively apply the proposed disclosures, but do not believe that an entity should be required to do so. While we generally believe that retrospective application improves comparability, we understand that the benefits of retrospective application in this situation may not justify the costs.

Question 10:

How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If the answer is “yes” to either question, please explain why.

We believe that an entity should be permitted to early adopt the amendments. We believe the benefits of providing the additional disclosures outweigh concerns about the decrease in comparability among tax-paying entities.