



September 30, 2016

Ms. Susan Cospier
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-270

Dear Ms. Cospier:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Income Taxes (Topic 740), Disclosure Framework – Changes to the Disclosure Requirement for Income Taxes* (the "ED").

We support the Board's overall objective in the disclosure framework project to make financial statement disclosures more effective, balancing the information needs of financial statement users with the costs and complexity of producing that information. We also agree with the FASB's expected approach of considering the feedback on the ED with feedback on the disclosure framework proposed in March 2014 and on the other tests of that framework in the areas of defined benefit plans, fair value measurement, and inventory. We recommend that the Board not finalize changes to the disclosure requirements in any of those areas until all feedback is considered.

Specific disclosure proposals

We generally agree that the proposed amendments would result in the inclusion of more decision-useful information about income taxes in the notes to the financial statements. In particular, we agree with the proposal to codify certain disclosures that are already required by SEC rules for public business entities. However, we have both conceptual and practical reservations regarding certain aspects of the proposal, including the proposed disclosure of legally-enforceable agreements that reduce an entity's tax burden, disaggregation of foreign taxes paid, and the disclosure of foreign cash, cash equivalents, and marketable securities.

Disclosures about government assistance

We agree with the Board's removal of items within the scope of Topic 740 from the scope of the proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. We do not, however, support the disclosure requirement that has been proposed in the ED specific to Topic 740. We believe that the existing disclosures under Topic 740 already provide users with decision-useful information about arrangements with governments that provide a tax benefit. Specifically, the reconciliation of the statutory tax rate (or tax provision at the statutory rate) to the reported effective tax rate (or total tax provision), the reconciliation of the amount of unrecognized tax benefits, and the disclosures required for changes in tax laws contain sufficient information necessary to understand the sustainability of the effective tax rate. In addition, given the variety of tax regimes around the world and, in a number of jurisdictions, the lack of a uniform "statutory" corporate tax rate, it will be practically difficult for entities to identify "agreements" that "reduce an entity's tax burden."

We are also concerned with the practical challenges of a disclosure that would require entities to identify all of their agreements that could potentially represent government assistance—across multiple



jurisdictions and legal entities, regardless of size—in order to determine whether the agreements are material in the aggregate. If this proposed disclosure is retained, we believe it should only apply to agreements that are material.

Disaggregation of foreign taxes paid

We acknowledge that financial statement users frequently express a desire for greater information about cash taxes, and, therefore, we agree with the proposal to provide additional disclosure that disaggregates cash taxes paid between domestic and foreign, which aligns with the existing requirement to separately disclose pre-tax income and income tax expense from domestic and foreign sources. However, it is unclear to us how the proposed requirement to disclose the amount of income tax paid to any country that is significant to total income taxes paid accomplishes the objective (as stated in BC19) of providing users with information about the sustainability of tax rates. While this disclosure would provide some context for where taxes are paid, it could be misleading. Cash taxes paid is subject to significant variability between periods due to the utilization of tax attributes (e.g., NOLs and credit carryforwards), changes in deferred taxes, and audit settlements. In any given period, the amount paid could combine tax payments for prior, current, and future periods.

Disclosure of foreign cash, cash equivalents, and marketable securities

While the disclosure of cash, cash equivalents, and marketable securities at foreign subsidiaries could have relevance to users in assessing liquidity and capital deployment by an enterprise, it has no specific relevance to the recognition of current and deferred income taxes under Topic 740. Without some context to weigh accumulated unremitted earnings against liquid assets, disclosing cash, cash equivalents, and marketable securities could be misleading. Users could infer that those funds are readily deployable, when in fact the entity has plans to utilize the cash in a different manner. In the financial services industries, disclosure of cash, cash equivalents, and marketable securities does not provide decision-useful information to the user since their balance sheet primarily comprises these balances. For companies in the retail industry, a disclosure of year-end figures may be artificially inflated due to the seasonality of the business. We also believe that the FASB should provide additional guidance with respect to the definition of marketable securities as the term is used in several different contexts in the codification but is not included in the master glossary.

Disclosure objectives

One of the key elements of the disclosure framework project is the introduction of key “disclosure objectives” in each topical section. We support the addition of disclosure objectives to assist entities in determining when disclosures should be made. However, we are concerned that the objectives for disclosures proposed in the ED are not sufficiently clear to provide useful guidance to preparers in interpreting the requirements. In addition, the objective focused on “undistributed earnings” is incomplete as undistributed earnings is just one component of the potential unrecognized tax liability related to an outside basis difference. We also struggle to link the disclosure objectives to the existing and proposed disclosures.

Materiality

We support the elimination of phrases like “an entity shall disclose at a minimum” and other wording that could appear to limit an entity’s discretion to omit immaterial disclosures. We believe this supports the Board’s intent to clarify that entities should determine what information is material for disclosure in their financial statements. We also support the Board’s planned roundtable discussions with regard to



materiality and disclosures. In the context of this proposal, the application of materiality will be particularly important with regard to the proposed disclosures of government assistance.

* * * * *

The appendix to this letter contains our detailed responses to the Questions for Respondents in the ED, which includes additional observations and in some cases expands on our comments above. If you have any questions, please contact Patrick Durbin at (973) 236-5152, Brett Cohen at (973) 236-7201, or Jennifer Spang at (973) 236-4757.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



Appendix

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 agree that the proposed amendments would result in the inclusion of more decision-useful information in the financial statements. However, as noted in our cover letter, we have both conceptual and practical reservations regarding certain aspects of the proposal. In addition to the more significant concerns outlined in our cover letter, we provide the following additional comments on specific aspects of the proposal.

Disclosure of the description of legally enforceable agreements with a government

We believe that the proposal requirement to determine which arrangements are legally enforceable and whether the government has exercised discretion would be difficult to apply in practice. Acknowledging that assistance that is “broadly available” would not be in scope, we encourage the Board to further describe the types of assistance that should be included in the disclosures, possibly by providing examples. For example, taxpayers often seek guidance regarding the tax treatment of a transaction from a government either through a ruling or advanced pricing agreements (APAs). Additionally, in many countries special tax status is broadly available but subject to a discretionary approval process. Even tax examination closing agreements between a government and taxpayer involve a legally-enforceable arrangement in which the government has discretion. We do not believe the Board intended for these types of examples to be included in the proposed disclosures, but believe the currently proposed requirement could be interpreted on a basis broader than the Board intended. We believe more guidance is necessary to clearly define the scope of arrangements expected to be included in the disclosure. Objectives that provide clarity around the scope of arrangements and implementation guidance including examples of types of arrangements that are and are not included could significantly improve the quality and effectiveness of this proposed disclosure.

Confidentiality is an important consideration in connection with the proposed disclosures. The proposal may in some instances require disclosures that would violate contractual confidentiality requirements. Such disclosure could create economic disadvantages for the reporting entity, which would be especially concerning in the context of the European Union’s current challenges of member states on whether they have provided illegal state aid. These ongoing legal disputes confirm that there is not a common understanding of the definition of government assistance. If governments cannot agree on what qualifies as assistance, it seems unlikely that preparers could arrive at a consistent definition.

Carryforward disclosures

The disclosure of the gross amount of loss carryforwards and their net, or tax-effected, amounts provides relevant context to both the financial statement amounts (tax-effected) and the amount of income necessary to recover the carryforward (gross). The relationship between gross and net amounts is less clear in the context of other tax attribute carryforwards. We suggest the FASB clarify whether tax credit carryforwards are intended to be captured in this disclosure.

Unrecognized tax benefits

The proposed amendments would require disclosure of the line items in the statement of financial position in which unrecognized tax benefits are presented or a disclosure that unrecognized tax benefits are not presented. It is unclear when an unrecognized tax benefit would not be presented in the financial statements or why this disclosure would be useful. Additional guidance or an example should be provided to help clarify the requirement.



The requirement in ASC 740-10-50-6A(c) to disclose the amount of unrecognized tax benefits that offsets the deferred tax asset attribute seems factually inaccurate. By definition, an unrecognized tax benefit means the related deferred tax asset is unrecognizable for financial reporting purposes. This disclosure would appear to request disclosure of the tax return basis for tax carryforwards by requiring the disclosure of unrecognized tax benefit used to determine the financial reporting amount of tax carryforwards. Further clarification and implementation guidance would assist in addressing these concerns.

Areas for implementation guidance and/or clarification

Broadly speaking, we encourage the FASB to consider additional implementation guidance to help minimize the potential for diversity in practice. For example, the proposal requires public business entities to disclose an explanation of year-to-year changes in reconciling items with respect to differences in their statutory total provision and their reported total provision. It is unclear whether the required explanation would be applicable in situations when the tax effect remains consistent year over year but the applicable percentage changes solely as a result of changes in pretax income.

The intended use of certain terms should also be clarified. For example, we note that several of the proposed amendments introduce the term “home country,” which is not defined. It is also inconsistent with the income tax disclosure framework’s utilization of the terms domestic and foreign, and the use of “country of domicile” in ASC 740-10-50-12. We suggest that the FASB use consistent terminology throughout.

Finally, we believe ASC 740-10-50-9(e) could be removed because the information would now be required by ASC 740-10-50-2. In addition, we believe that ASC 740-10-50-6B could be eliminated and the concept of explaining the change in valuation allowance added instead to the last sentence of ASC 740-10-50-2 (see our comments on Question 6 as to our thoughts on this requirement applying to all entities).

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We expect that preparers will be able to accumulate the majority of information necessary under the proposed disclosures, but as noted in our cover letter and consistent with our comment letter dated February 10, 2016 on proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, significant incremental costs and challenges are inherent in the requirements of proposed new paragraph ASC 740-10-50-23.

It is unclear what incremental information would be necessary for reporting entities to comply with the proposed disclosure of an enacted change in law that is probable to have an effect in a future period. Entities are already required to prepare their financial statements utilizing enacted tax rates, reflecting any law changes as of the balance sheet date. Likewise, ASC 855 already requires entities to disclose any enacted law changes that have occurred subsequent to the balance sheet date but prior to release of the financial statements that would have a material impact on the financial statements. It is unclear what the overall objective of this particular proposed disclosure is and how it provides decision-useful information. In addition, the proposed disclosure seems inconsistent with the FASB’s goal of reducing forward-looking information in financial statements.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Except as indicated in our cover letter and the responses to other questions, we do not believe there would be significant incremental cost from the adoption of the proposed disclosures. Entities other than public business entities may have a larger incremental cost, as more of the proposed disclosures are new for them.



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 agree with the Board's conclusions with respect to weighing the costs and benefits provided from additional disclosures for continuing operations income (or loss) and income tax expense (or benefit) by significant country. We do not believe there are other additional country-level disclosures that would be cost beneficial.

While we agree with the Board's proposal to provide additional information that disaggregates cash taxes paid between domestic and foreign, as noted in our response to Question 1, it is unclear how the proposed requirement to further disaggregate foreign cash taxes paid for disclosure would provide incremental benefit. Further, "significant" is not defined and would likely lead to diversity in practice.

Finally, we note that there is diversity in practice today on how to differentiate pretax earnings between foreign and domestic. Questions arise as to whether this disclosure should be based on a pre- or post-consolidation eliminations basis. Questions also arise on how to treat hybrid entities. These questions will become even more apparent if the FASB issues a final ASU for intra-entity transfers of assets other than inventory. Additional guidance would assist in reducing the diversity in practice for these questions.

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

We acknowledge that there is increasing pressure to provide more clarity with respect to the tax effects of foreign operations, specifically the effect of indefinitely reinvested foreign earnings. We further acknowledge the Board's consideration throughout this project of a number of alternatives, including the disclosure of a high-level description of the company's plans with respect to their unremitted foreign earnings or a range of the potential tax impact of such earnings. We understand the Board's rationale for ultimately not proposing additional disclosures along those lines.

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 agree with the exemptions provided for entities other than public business entities, with one exception. Entities other than public business entities are required to disclose a change in their valuation allowance, but are exempt from the proposed disclosure to explain the change. We do not see a basis for exempting entities other than public business entities from providing an explanation for changes in valuation allowance.

In considering the Private Company Decision-Making Framework and our experience with these entities, we encourage the Board to consider additional exemptions from some of the proposed disclosures including the disaggregation of income taxes paid and the disclosure of cash, cash equivalents, and



marketable securities held by foreign subsidiaries. In BC 19 the FASB indicates that the proposed disclosure of disaggregated cash taxes paid is aimed at providing users with information about the sustainability of tax rates. Private Company Council members indicated that the rate reconciliation is not prioritized by its users and therefore should not be proposed as a new requirement. As such, it seems unnecessary to require disclosure of income tax paid to any country that is significant when the stated goal of that disclosure—to act as an indicator of sustainability in tax rates— does not seem to be decision-useful to private company stakeholders. Similarly, we do not believe that cash, cash equivalents, and marketable securities in foreign jurisdictions is decision-useful information for private companies. The stated goal of this objective is “a sense of exposure for income taxes.” However, private companies are not required to disclose a rate reconciliation or uncertain tax positions so we question why this particular disclosure would be different than the exceptions provided for private companies in those areas.

Finally, we noted that the basis for conclusions frequently references private companies rather than calling them entities other than public business entities. We suggest that the FASB use consistent terminology or define private companies as “entities other than public business entities” to eliminate any potential confusion.

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 are not aware of any additional disclosures that should be required by Topic 740.

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.

Other than as indicated in the responses to the other questions, we do not propose to remove any other disclosures from Topic 740.

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.

We agree with the conclusions reached in the basis for conclusions with respect to the application of the proposed disclosures for the reporting and subsequent periods. As noted, application through prior period restatement would not be cost effective and would largely be achieved through the manual manipulation of prior year system information since the entity’s accounting systems may not have captured the data needed to comply with the proposed disclosures. We would not object if an entity decided to voluntarily provide restated prior period information for comparative purposes.

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 questions regarding the time period required for implementation are better addressed by preparers.

We believe that early adoption should be permitted.