beneficial to the capital markets and debt markets. Additionally, due to the growth of PRE, additional disclosures in this area are timely and pertinent.[5]

Specifically, the research on the disclosure of cash, cash equivalents, and marketable securities held by foreign subsidiaries (¶BC38) finds that equity holders discount PRE (Collins et al. 2000; Bryant-Kutcher et al. 2008; Bauman and Shaw 2008) and cash holdings (Campbell et al. 2015; Harford et al. 2014; Chen 2015) when firms face future repatriation taxes. Blouin et al. (2014) document that 95 percent of PRE is held in countries with effective tax rates lower than the U.S., creating incentives to keep foreign earnings abroad in order to avoid the cost of repatriation taxes. Oler, Shevlin and Wilson (2007) provide evidence that investors appeared to reprice the tax liability on PRE following the 2004 American Jobs Creation Act (AJCA), consistent with investors anticipating that U.S. multinational firms would repatriate PRE exploiting the "dividend repatriation tax holiday." Extrapolating this evidence suggests that investors infer that firms will only repatriate if given an incentive to do so. Oler et al. (2007) also develop a method to estimate domestic and foreign ROA, suggesting this information might be useful to investors. Evidence suggests that equity holders primarily discount foreign resources either because foreign resources remain invested in financial assets (Campbell et al. 2014) or are inefficiently spent on foreign acquisitions (Edwards et al. 2015; Hanlon et al. 2015). Additionally, Blaylock et al. (2016) provide evidence that the public debt market appears to assign a greater credit spread to foreign earnings when firms face greater repatriation costs.

Nessa et al. (2015) provide evidence that there appears to be a significant difference in the market response to earnings of firms with low versus high average foreign tax rates. Their study provides insight into the ability of investors to assess the likelihood of repatriation taxes based on current disclosures. That is, they do not find evidence that investors condition their valuations on the likelihood of repatriation. This could be because (i) their tests lack statistical power, (ii) investors do not care about the likelihood of repatriation, or (iii) investors could benefit from improved firm disclosures related to potential repatriation taxes. Nessa et al. (2015) suggest that the need for more disclosure related to firms' foreign investments and potential repatriation tax liabilities is the most likely explanation for investors' apparent inability to differentiate between firms based on the likelihood of future repatriation.

With respect to removing the practicability exception (¶BC28a), Eiler and Kutcher (2014) find that the likelihood of disclosing the unrecognized deferred tax liability on PRE is decreasing in the complexity of the tax liability calculation. Thus, firms appear to be at times correctly applying the practicability exception and, therefore, requiring an entity to calculate the liability based on a set of simplifying assumptions might help (¶BC28b). However, there is some evidence that firms do not appear to comply with the mandatory disclosure requirements (even when it is

[5] Ciesielski (2012) states that aggregate permanently reinvested earnings (PRE) for S&P 500 firms is $1.542 trillion at the end of 2011, and that "in the space of five years (2006 through 2011), the balance of indefinitely reinvested earnings more than doubled, growing at an average rate of 20% per year."

practicable to do so). Specifically, Ayers et al. (2015) find that that less than 25 percent of the firms that disclose cumulative PRE also disclose the amount of the unrecorded deferred tax liability. Ayers et al. (2015) suggest that many entities may use the practicability exception in paragraph ¶740-30-50-2(c) to avoid disclosing the unrecognized deferred tax liability on indefinitely reinvested foreign earnings.[6] However, limitations in their study, such as the use of the effective tax rate reconciliation to classify whether firms are 'complying' with the disclosure requirements, are important to consider here. These unrecognized deferred tax liabilities are substantial.[7]

We are unable to provide any academic evidence relating to the second question regarding whether there are other disclosures that would be more cost beneficial.

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.

Academic evidence provides insight into the relative usefulness of tabular disclosures, like the rate reconciliation, versus other forms of disclosure. Specifically, experimental research finds that tabular displays reduce cognitive load, allowing for better and faster judgments (Cardinaels 2008). This would suggest the format of the rate reconciliation as required for public firms would benefit private firms and their shareholders, if required. Additionally, using a sample of pre-IPO Biotech companies, Hand (2005), provides evidence based on the valuations of venture capital investments, that financial statements are used similarly in valuation decisions for public and private firms of reasonably similar economic maturity. As such, reconciliations are likely to be decision useful for firms that undertake complex tax transactions, regardless of whether the firm is public or private. This suggests that private firms with complex tax transactions similar to those undertaken by a public firm should face similar costs in preparing reconciliations.

In ¶BC92 the Board states that "The Board, along with many users and preparers, believes that …the rate reconciliation [is] one of the most useful disclosures about income taxes." Yet, later in ¶BC99 the Board states that "because a private company generally outsources preparation of

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[6] Specifically, they state "Even though disclosing that [tax due upon repatriation] is not practicable is permitted under ASC 740, the SEC has begun to question firms as to why it is ''not practicable'' to disclose it. This suggests the SEC is uncertain why [tax due upon repatriation] is not practicable to calculate, particularly when firms simultaneously record deferred tax liabilities on foreign earnings not designated as PRE."

[7] Zion, Varshney and Burnap (2011) estimate that PRE are associated with a $360 billion unrecognized tax liability at the end of 2010.

income tax provision and related notes to the financial statements, a rate reconciliation would be costly and compromise the timeliness of reporting." Whereas research on whether entities other than public business entities *should* be exempt from certain financial reporting standards is scant, the committee generally supports Professor Teri Yohn's dissenting view to the Blue Ribbon Panel on Private Company Financial Reporting.[8] That is, "the relevance of a standard should be judged on the basis of whether it meets the objectives of financial reporting." In this case, with respect to the rate reconciliation, the Board seems to suggest that it meets the objectives of financial reporting as "one of the most useful disclosures about income taxes." Thus, exemption for entities other than public business entities seems peculiar unless the board feels that the red-flag approach in ¶BC97 provides enough motivation for shareholders in entities other than public business entities to require the rate reconciliation when necessary. Finally, all differences in generally accepted accounting principles between public and private firms create other costs, such as costs associated with lack of comparability. While costs such as these are difficult to measure due to their nature research finds that costs associated with the lack of comparability can be substantial (De Franco et al. 2011; Kim et al. 2013; Chen et al. 2015; Peterson et al. 2015).[9]

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.

Academic evidence suggests that the Board should consider adding to the income statement-related disclosures a separate line item disclosure of the impact of FIN48 reporting on the provision for income taxes (c.f. ¶740-10-50-9).. Specifically, Robinson, Stomberg, and Towery (2016) provide evidence that FIN48 essentially decreased the predictive ability of tax expense for future cash flows and appeared to decrease the usefulness of income tax accounting for equity investors. Atwood, Henley, and Shipman (2016) provide further evidence that estimates of book-tax differences computed from the current tax and deferred tax expense amounts appear to be less useful to equity investors when inferring earnings quality after FIN48. Taken together, these studies suggest that the footnote disclosures could be improved by breaking down the total tax expense into current tax expense or benefit (without the impact of FIN48), deferred tax expense or benefit (without the impact of FIN48), and the FIN48 expense or benefit amount rather than aggregating the FIN48 impact in the current and deferred tax expense categories.

In addition, based on the evidence in Ayers et al. (2015), and the discussion in ¶BC28, the FASB could consider providing additional guidance on the practicability exception in ¶740-30-

[8] http://www.aicpa.org/interestareas/frc/accountingfinancialreporting/pcfr/downloadabledocuments/blue_ribbon_panel_report.pdf

[9] The FASB (2010) argues that comparability is an enhancing characteristic of financial reporting that enables investors, creditors, and regulators to identify similarities and differences across firms and within the same firm over time.

50-2(c). That is, given the apparent avoidance of disclosing the unrecognized deferred tax liability on indefinitely reinvested foreign earnings, companies could provide disclosure about why they cannot calculate these positions.

Question 8

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

In terms of ¶740-10-50-15(d), Robinson and Schmidt (2013) find that less than 50% of firms disclose forward-looking information related to UTBs, consistent with the Board's concern that entities may be unable to reasonably assess the likelihood of settlements over the next 12 months. Dunbar, Omer and Schultz (2010) also provide evidence questioning the completeness and quality of FIN 48 disclosures and their usefulness in forecasting. Specifically, their forecast accuracy analysis reveals significant understatement and overstatement errors, which suggests task difficulty rather than strategic understatement of the anticipated changes in tax reserves. Together this evidence supports the elimination of the requirement to disclose forward-looking information about UTBs.[10]

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.

In general, research suggests that requiring firms to restate prior periods in the year in which the requirements are effective would provide investors with the most decision useful information. That is, research has shown that investors do not pay an equal amount of attention to disclosed amounts relative to recognized amounts in disclosures (Davis-Friday, Buky, Lui, and Mittelstaedt 1999; Ahmed et al. 2006; Picconi 2006). Research suggests this is due to limited attention (Hirshleifer and Teoh 2003; Barth, Clinch, and Shibano 2003), costly information processing (Bloomfield 2002), and/or differences in the amount of verification required for footnote disclosure as compared to recognition (Muller, Riedl, and Sellhorn 2015). These results

[10] More broadly, Dyer, Lang and Stice (2016) suggest that the increasing prevalence of recent disclosure requirements around fair value, risk factors and internal control weaknesses has contributed to an overall increase in redundancy, stickiness and boilerplate language, and a decrease in readability, specificity and hard information. They also note that the subsample of firms for which the disclosure requirements were expected to be less relevant responded by providing additional disclosure that was particularly high in boilerplate language, redundancy, complexity and stickiness, and lacking in hard information and specificity.

have been shown in research related to stock option disclosures (Aboody, Barth, Kasznik 2006) and pension disclosures (Dhaliwal 1986; Barth 1991; Yu 2013).

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 are unable to provide insight on this issue.

APPENDIX

Summary of FASB Questions for Comment and the Committee's Responses

	Question	Summary of the Committee's Response
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.	Many of the proposed additional disclosures related to income taxes are expected to be decision-useful, including: • 740-10-50-1A(a) • 740-10-50-6A • 740-10-50-15A(a)(3) Furthermore, academic literature supports the Board's decision not to require discounting of firms' deferred tax liabilities, as well as to eliminate the UTB look-forward information.
2	Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?	The auditability of the disclosures of entities other than public business entities may be systematically harder to audit, at least in terms of the perceptions of jurors.
3	Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.	While we cannot assess the cost-benefit trade off, academic literature identifies three sources of costs: (1) implementation costs, (2) political costs, and (3) proprietary costs.
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?	Academic research suggests that the disclosure of income taxes paid by foreign country are expected to be decision-useful to investors. In terms of other country-level disclosures the Board might consider, academic research suggests that it could be useful to require firms to provide cash holdings by country and permanently reinvested earnings (PRE) by country.
5	The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27-BC40 of this proposed Update). Is there other	Research supports the view that disclosures about indefinitely reinvested foreign earnings would be beneficial to the capital markets and debt markets.

	Question	Summary of the Committee's Response
	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 found little academic evidence on the second question regarding whether there are other disclosures that would be more cost beneficial.
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.	Research suggests the rate reconciliation as required for public firms would benefit private firms and their shareholders, if required. Research also suggests that differences in generally accepted accounting principles between public and private firms create other costs, such as costs associated with lack of comparability, which can be substantial.
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.	Research suggests that footnote disclosures could be improved by breaking down the total tax expense into current tax expense or benefit (without the impact of FIN48), deferred tax expense or benefit (without the impact of FIN48), and the FIN48 expense or benefit amount rather than masking the FIN48 impact in the current and deferred tax expense categories. Second, the FASB could consider providing additional guidance on the practicability exception in ¶740-30-50-2(c). Finally, the FASB may wish to increase the amount of quantitative information and reduce the number of qualitative disclosure, as this is associated with increased ETR forecast accuracy.
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.	Research supports the elimination of the requirement to disclose forward-looking information about UTBs.
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.	Research suggests that requiring firms to restate prior periods in the year in which the requirements are effective would provide investors with the most information. That is, research has shown that investors do not pay an equal amount of attention to disclosed amounts relative to recognized amounts in disclosures.

	Question	Summary of the Committee's Response
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.	N/A

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