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VIA ELECTRONIC DELIVERY

September 30, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2016-270
Re: ***Proposed Accounting Standard Update – Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes***

The Capital Group Companies, Inc. (referred to herein as "Capital") is one of the oldest and largest investment management companies in the nation. We, the co-signers of this letter, function as accounting and financial reporting advisers to the investment associates of Capital. These comments reflect the signers' own views (referred to herein as "we") and not necessarily those of Capital or other Capital associates.

We appreciate the opportunity to provide comments on FASB's proposed Accounting Standard Update, Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes. These comments are informed by our experiences as users of audited financial statements issued by publicly listed companies in which associates of Capital and its affiliates decide whether to invest or disinvest.

Capital invests in equities and fixed income securities globally, and has approximately 300 equity and fixed income analysts and portfolio managers around the world. Capital's investment associates conduct extensive, fundamental, on-the-ground company research and rely heavily on financial statements prepared by public companies. Capital buys and holds investments for the long-term.

In our experience, assessing the sustainability of a company's effective tax rate is an important part of investment analysis. Therefore, our comments focus on increasing the substantive information both quantitatively and qualitatively and improving comparability across public companies. We applaud FASB's effort to improve tax disclosures, and appreciate the chance to provide specific reactions and recommendations for the project.

We support the proposal to require disclosure of income (loss) before income tax expense disaggregated between domestic and foreign, income tax expense (benefit) disaggregate between domestic and foreign, and income taxes paid disaggregated between domestic and foreign and further disaggregated by country. However, we urge FASB to set a disaggregation threshold for income taxes paid of 5% or more of the total. Additionally, we recommend that FASB require:

1. Tabular disclosure of these items;

2. Domestic tax expense recognized in the period with respect to foreign earnings: Investors should be informed as to the amount of deferred tax expense associated with the deferred tax liability accrual made when foreign earnings are not considered indefinitely invested outside the U.S., and, disclosure of current expense recognized when earnings are actually or deemed repatriated; and

3. Foreign earnings disaggregated for any country that is at least 5% of total foreign earnings.

Make the income tax rate reconciliation useful

We are pleased that FASB is addressing the problem of insufficient disclosure in the tax rate reconciliation, and we would like to make several recommendations:

1. Companies should be required to present the rate reconciliation in percentage terms and in a tabular format (instead of in absolute dollar terms or numbers buried in paragraphs). This would be an easy way to have disclosures be more user friendly and comparable.

2. We appreciate that FASB proposes to require separate line-item disclosure of any individual reconciling item which amounts to more than 5% of the base number defined as the product of (i) income before the provision for income taxes and (ii) the applicable statutory federal income tax rate (i.e., 175bp at today's 35% statutory federal rate).

   We recommend that FASB also require qualitative description of any items which do not exceed the 5% threshold in order to guard against excessive grouping which is not in the spirit of the disclosure requirement. We believe understanding the sources of the foreign rate differential will be useful for assessing the persistence of foreign tax benefits.

3. Require disclosure of the amount of intercompany loans, interest rate and maturity in which foreign and domestic members of the group are the parties to the loan, and the identities of the borrower and lender.

4. Amounts recorded and released in the valuation allowance should be presented *separately and not netted against tax benefit items in the rate reconciliation*. We support FASB's proposed requirement to disclose the reasons and amounts for any increases or reversals in the valuation allowance. These amounts can have significant impacts on earnings and yet are inconsistently disclosed or made transparent.

5. We urge FASB to move forward with its proposal to require disclosure of the terms of any rights or privileges granted by a governmental entity directly to the reporting entity that have reduced or may reduce the entity's income tax. Further, for tax credits which are material to the tax rate, FASB should require disclosure of the countries in which tax credits apply, expiration date, history of renewal, what the company must do to retain or renew its tax benefits (e.g., capital investments, leasing, employment, etc.), and whether the company experienced a loss of any such grants in the reporting period. We find much diversity in practice currently which this recommendation would address.

<u>Proposal falls short with regards to undistributed foreign earnings</u>

We believe that if companies were required to accrue tax on unremitted earnings, then it would make earnings more comparable across companies, companies may not be as interested in inversion-type mergers and companies may be more inclined to repatriate foreign earnings after having already taken the tax expense hit to earnings. It is widely expected that undistributed foreign earnings will be taxed eventually and leaving them untaxed in the period earned is misleading.

We recommend that FASB require deferred tax accounting for all taxable temporary differences including temporary difference attributable to basis differences with respect to foreign subsidiaries. This is the only remaining area of transactions which does not elicit a deferred tax liability and there is no justification for this exception; one could make the case in many areas that management intends to do something which may not result in taxes paid.

If FASB continues to allow for the accounting exception, then disclosure is that much more important. We believe that, at a minimum, FASB should remove the practicability exception for disclosure of the estimated tax liability for undistributed foreign earnings, and require disclosure of the amount of foreign tax credits related to (and typically netted against) the estimated tax liability. We recognize that companies which have taken advantage of this exception over many years may not be able to calculate the estimated taxes, but it's important that they begin doing so going forward so that investors have a means to adjust earnings.

We appreciate FASB's proposal to require disclosure of the amount and explanation for any change in assertion about the temporary difference for the cumulative amount of investments associated with undistributed earnings. We believe FASB should also require the following:

1. Disclosure of a tabular roll-forward for undistributed foreign earnings in each of the last two years in sufficient detail to identify the gross increase in undistributed foreign earnings and any reduction from repatriation of foreign earnings previously identified as being indefinitely invested;

2. If a company repatriates 5% or more of its purportedly indefinitely reinvested foreign earnings, then we would like to see a requirement that would preclude the company from asserting that the rest of earnings are indefinitely reinvested. At a minimum, companies should be required to provide an explanation as to how prior repatriation actions have a bearing on management's declared intention to permanently reinvest earnings, and, if not, why not;

3. Disclosure of any repatriation of money in each of the last five years; and

4. We applaud FASB's proposed requirement to disclose the amount of undistributed foreign earnings which is held in cash. We recommend also requiring disclosure of (a) how much is held in U.S. dollar assets, and (b) the estimated tax liability for the amount of undistributed earnings which is held in cash and cash equivalents presuming that is the amount most likely available for repatriation.

We have observed instances where the acquiring company in a business combination allocates a portion of the purchase price to establish a deferred tax liability for the acquiree's unremitted foreign earnings even though there are no plans to provide deferred taxes on future earnings. FASB should prohibit such purchase-accounting accruals, which don't go through earnings.

<u>How much of the UTB liability relates to cross-border transactions within the group</u>

We support the proposed requirement to disclose settlements using existing tax assets separate from those which are settled in cash, and, a breakdown of the ending balance of the unrecognized tax benefit (UTB) liability by line items in the balance sheet in which the liability is recognized. We recommend that companies be required to disclose how much is reserved for potential tax adjustments related to transactions between domestic and foreign members of the consolidated group.

At a minimum, investors should be provided with a description as to what major issues gave rise to the UTB liability increases or decreases, especially if FASB will eliminate disclosure of any reasonably possible significant change in the liability within 12 months of the reporting date. We do not support the proposed elimination as investors should be enabled to have more, not less of an understanding of the liability.

<u>Transparency of deferred taxes</u>

We applaud FASB's proposed carryforward disclosures, and we strongly recommend requiring the following:

1. A roll forward table for deferred tax liabilities and deferred tax assets delineating the amounts reversed, utilized and established and their origin (e.g., tax loss carryforwards, separate from provisions, and accelerated depreciation, overprice assigned in business combinations, etc.) and by financial statement line items.

   Disclosure of the financial statement lines within which deferred taxes are presented is important information. Investors are at a loss as to why FASB reversed its earlier decision to provide this useful information. GAAP has fallen behind International Financial Reporting Standards (IFRS) in providing transparency to investors in this regard (see Appendix for IFRS example).

2. Tabular disclosure of tax loss carryforwards amounts *by major jurisdiction*, the amount of any IRC Section 382 limitation or comparable limitations imposed by foreign tax laws, the expiration dates, the portion of the valuation allowance which relates to each NOL, and the amount of unrecognized tax benefits that offsets carryforwards.

3. A qualitative disclosure where management describes its process for assigning and reversing valuation allowances. While it is not explicitly a part of GAAP, many practitioners use a three-year cumulative pre-tax loss measure as a rule of thumb for a situation where there is substantial negative evidence suggesting the need for a valuation allowance unless there is substantial objectively verifiable positive evidence that can be used to overcome this negative metric. More transparency around this process would be useful. Understanding the mechanism for how valuation allowances are assigned and reversed will help investors better understand how tax expense is calculated and help them anticipate valuation allowance activity in future periods.

4. Tabular disclosure of when the deferred tax liabilities will become current liabilities. Investors should be better informed of these potential cash outflows.

<u>Increased information related to cross-border intercompany transactions</u>

Since intercompany transactions are the basis on which the foreign rate differential is premised, in order to evaluate the efficacy and sustainability of the differential, we believe more information is needed of the type referred to below.

1. Require qualitative description of operating activities conducted in each significant jurisdiction, including describing how much R&D spend takes place there.

2. Require an organizational chart diagram disclosure of foreign subsidiaries, where the intellectual property resides within the organization and which subsidiaries have rights to use it such as through licensing arrangements.

3. Disclose whether the company has entered or resolved an Advance Pricing Agreement (APA) process, or has APAs with which governments and covering which years.

4. Disclose if, during the year, any intellectual property was transferred to foreign affiliates, newly developed at foreign affiliates, if licensing agreements were amended, or if a corporate reorganization resulted in a change in the residence of intellectual property.

5. Disclose whether intellectual property was previously transferred to, or whether it was developed at foreign entities.

6. Disclose the amount of royalty payments made from domestic entities to foreign entities and the amount of any payment made to enable a foreign entity to acquire an interest in the intellectual property. Disclose whether the company's royalty payments were recently audited by the IRS or relevant tax authority.

Lastly, we support FASB's proposed requirement to disclose if a tax law change is enacted and is probable to have an effect on an entity in a future period. Investors would find it useful for companies to disclose their best estimates of the impacts.

We applaud FASB's effort to improve tax disclosures for investors. It is an important area which has some of the most lacking and inconsistent disclosures today.

Thank you for your consideration of our comments. Feel free to contact us at Elizabeth.Mooney@capgroup.com and Dane.Mott@capgroup.com should you have any questions or wish to discuss our comments on the proposal.

Sincerely,

/s/ Elizabeth Mooney
Accounting Analyst

/s/ Dane Mott
Accounting Analyst

Appendix

Example of deferred tax asset and liability rollforward disclosure by an issuer under IFRS

	Thousands of euros											
	Balance at 01.01.14	Translation differences	Credit (charge) to Consolidated income statement	Credit (charge) to asset and liability revaluation reserve	Credit (charge) to "Other reserves"	Balance at 12.31.14	Consolidation perimeter modification (Note 42)	Translation differences	Credit (charge) to Consolidated income statement	Credit (charge) to asset and liability revaluation reserve	Credit (charge) to "Other reserves"	Balance at 12.31.15
Deferred tax assets:												
Derivative financial instruments valuation	631,671	77,767	(54,102)	(47,523)	-	607,813	-	16,087	7,859	(47,338)	-	584,421
Balance sheet revaluation 16/2012	1,848,185	-	(665)	-	-	1,847,520	-	-	(135,043)	-	-	1,712,477
Pension and similar commitments	410,520	24,125	(23,324)	-	182,940	594,261	111,612	48,209	(35,971)	-	(31,375)	686,736
Allocation of non-deductible negative goodwill arising on consolidation	87,028	-	(16,398)	-	-	70,630	-	-	(1,893)	-	-	68,737
Provision for facility closure costs	70,652	827	(19,558)	-	-	51,921	-	870	3,273	-	-	56,064
Tax loss and tax credit deduction	1,460,229	153,720	90,017	-	-	1,703,966	54,309	157,604	125,442	-	-	2,041,321
Other deferred tax assets	2,033,244	(1,071,849)	46,494	-	-	1,077,889	127,765	299,724	44,374	-	-	1,479,752
	6,541,529	**(815,410)**	**22,464**	**(47,523)**	**182,940**	**5,884,000**	**293,686**	**522,494**	**8,041**	**(47,338)**	**(31,375)**	**6,629,508**

	Thousands of euros									
	Balance at 01.01.14	Translation differences	Charge (Credit) to Consolidated income statement	Charge (credit) to asset and liability revaluation reserve	Balance at 12.31.14	Modification of the consolidation perimeter (Note 42)	Translation differences	Charge (credit) to Consolidated income statement	Charge (credit) to asset and liability revaluation reserve	Balance at 12.31.15
Deferred tax liabilities:										
Available-for-sale assets valuation	8,397	-	-	(8,389)	8	-	-	(8)	-	-
Derivative financial instruments valuation	516,296	14,491	15,967	270	547,024	-	16,884	(4,283)	(15,813)	543,812
Accelerated amortisation	4,134,793	471,598	286,402	-	4,892,793	570,183	480,742	73,233	-	6,016,951
Overprice assigned in business combinations	3,302,699	282,772	(175,758)	-	3,409,713	969,986	267,599	(86,642)	-	4,560,656
Other deferred tax liabilities	371,005	89,234	56,440	-	516,679	-	24,930	233,449	-	775,058
	8,333,190	**858,095**	**183,051**	**(8,119)**	**9,366,217**	**1,540,169**	**790,155**	**215,749**	**(15,813)**	**11,896,477**

From the 2015 Annual Report of IBERDROLA, S.A., pages 122-123