



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

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September 30, 2016

Mr. Russ Golden  
Chairman  
Financial Accounting Standards Board  
301 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

**Re: Proposed Accounting Standards Update on *Income Taxes (Topic 740)***

Dear Chairman Golden:

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy. To achieve these goals, the CCMC has supported the development of robust financial reporting systems and encouraged efforts to improve standards and reduce complexity.

The CCMC appreciates the opportunity to comment on the Financial Accounting Standards Board (“FASB”) Exposure Draft on the Proposed Accounting Standards Update on *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes* (the “Proposal”). While we support many aims of the Proposal, we believe that elements of the Proposal can be improved, particularly with respect to the term disclosure of “significant” income taxes paid to any country. Additionally, we believe that the Proposal would benefit from recognition that disclosure of certain items is either not decision-useful or duplicative of existing SEC requirements, like cash held abroad and certain income-tax related items, and may be motivated by interests outside of the scope of the Proposal.

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## Discussion

The Proposal is part of the FASB disclosure framework project to improve the effectiveness of disclosures required by generally accepted accounting principles (“GAAP”) in the notes to financial statements by facilitating clear communication of information that is most important to financial statement users.<sup>1</sup>

Consistent with the objectives of the disclosure framework project, the Proposal would incorporate in Topic 740 a provision that: “A reporting entity does not need to provide disclosures required by this Subtopic if the disclosures are immaterial.”<sup>2</sup> The CCMC strongly supports this provision.

However, we note that the Proposal also uses the term “significant,” which may lead to confusion or inconsistencies. For example, the Proposal calls for additional disclosures for income taxes paid disaggregated between domestic and foreign, and the amount of income taxes paid to any country that is significant to total income taxes paid.<sup>3</sup> However, “significant” is not a well-defined term. Setting aside any other issues on the usefulness or feasibility of country-specific disclosures, the CCMC believes that materiality should be the basis for determining information disclosed.

Improving disclosure effectiveness should also reduce financial reporting complexity and disclosure overload. In this regard, the CCMC notes that disclosure requirements for income taxes are already very extensive. While setting aside current requirements of the Securities and Exchange Commission (“SEC”) that the Proposal essentially folds into GAAP, the Proposal would still add many more disclosures (including disaggregated information) around foreign versus domestic income taxes, tax-related carryforwards, valuation allowances, uncertain tax positions, and the like.

The CCMC encourages FASB to focus on truly important information for financial statement users in predicting the amount, timing, and uncertainty of future cash flows, rather than requests for disclosing more information on income taxes based on other agendas. This is especially true given that certain interests continue to press for the disclosure of such information despite the lack of decision-useful

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<sup>1</sup> See the Proposal, p. 1.

<sup>2</sup> *Id.* at 8.

<sup>3</sup> *Id.* at 3.

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information or relevance to the FASB's mission of improving the effectiveness of disclosures. We likewise encourage consideration of the inherent limitations of income tax-related information as decision-useful given the context and complexities of income taxes globally.

As to other specifics, we recommend that any additional GAAP disclosures for income taxes recognize the existence of confidentiality requirements to which entities must adhere. One example is the proposed requirement for an entity to disclose the description of a legally enforceable agreement with a government, including the duration of the agreement and the commitments made with the government under that agreement and the amount of benefit that reduces, or may reduce, its income tax burden.<sup>4</sup> Agreements such as these with a confidentiality clause, or otherwise subject to confidentially constraints under jurisdictional laws, would be nullified (along with any tax benefits) if confidentiality is violated.

In addition to confidentiality, the CCMC has other concerns regarding this particular proposed disclosure. For example, we recommend that FASB conform the disclosure to current SEC requirements to disclose the effect of tax holidays and the circumstances and expiration, which are well understood. We also recommend FASB clarify that private letter rulings or advance pricing arrangements that confirm the expected tax treatment under published law would not be subject to disclosure.

Further, the CCMC encourages FASB to avoid requirements to disclose forward-looking information in the GAAP footnotes, and any such information raises issues of auditability. Both of these issues arise because of the lack of clarity in regards to the proposed requirement for an entity to describe an enacted change in tax law that is probable to have an effect on the reporting entity in a future period.<sup>5</sup>

Finally, as previously discussed, the Proposal would require a large amount of additional information. This information may not be readily available without companies implementing additional systems and processes. Thus, CCMC urges FASB to provide an effective date that allows adequate time for the implementation of any finalized guidance and does not overlap with the substantial efforts currently underway to implement new GAAP in areas such as revenue and leases.

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<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Id.* at 3.

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In conclusion, the CCMC stands ready to assist in these efforts for effective disclosures that convey relevant information for market participants, while maintaining the important objective of mitigating disclosure overload and financial reporting complexity.

Sincerely,

A handwritten signature in black ink, appearing to read "Andres Gil". The signature is fluid and cursive, with a large initial "A" and a stylized "G".

Andres Gil