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September 30, 2016

Ms. Susan M. Cospers
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 Standards Update, *Changes to the Disclosure Requirements for Income Taxes*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Changes to the Disclosure Requirements for Income Taxes*.

We support the FASB's ongoing efforts to improve the effectiveness of disclosures in the notes to the financial statements. We agree with several aspects of the Board's proposed ASU; however, we have mixed views about or disagree with some of the newly proposed disclosure requirements, as explained in our responses to the questions for respondents in the appendix below.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions about our comment letter, please feel free to contact Paul Vitola at (602) 234-5143 or Karen Wiltsie at (203) 761-3607.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to Certain of the Proposed ASU's 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.

While we would encourage the Board to address this issue directly with financial statement users as part of its outreach efforts, we believe that the proposed changes to the disclosure requirements would result in marginal improvements to existing disclosures. We agree that none of the proposed amendments would result in the elimination of decision-useful information.

However, we question the relevance and usefulness of requiring disclosure of the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries as proposed in ASC 740-10-50-24. Disclosure of the aggregate amount of these liquid assets held by foreign subsidiaries gives a user limited meaningful information, but it does not indicate how that balance is related to earnings that either are or are not asserted to be indefinitely reinvested. In addition, we believe that such information would be more useful if it excluded amounts that, as of the applicable reporting date, could not be repatriated (e.g., restricted cash or amounts subject to foreign repatriation controls).

Furthermore, we question whether the proposed disclosure requirement in ASC 740-10-50-23 regarding tax benefits stemming from legally enforceable agreements with governments will provide useful incremental information to users. As we stated in our February 10, 2016, comment letter on the Board's proposed Accounting Standards Update *Disclosures by Business Entities About Government Assistance*, we believe that ASC 740 adequately addresses disclosure of government assistance provided through income tax benefits. Under ASC 740, entities are already required to disclose reconciling items between the reported amount of income tax and the amounts that would have resulted from applying the domestic statutory rates, and any significant government assistance that reduces an entity's overall income tax burden would be apparent in those reconciling items. If the Board decides to retain the proposed government assistance disclosures, we believe that the last sentence in the proposed paragraph should be modified to remove the following language: "without specific agreement between the entity and the government." We believe that as a result of the removal of this language, entities would not be required to disclose arrangements about government assistance that reduce an entity's income taxes and that are broadly available but for which a specific agreement is still required. We do not believe that disclosure of such arrangements would provide decision-useful information.

Lastly, we do not believe that proposed ASC 740-10-50-6A(c), which discusses the amount of unrecognized tax benefits (UTBs) that offsets deferred tax assets with respect to carryforwards, provides incremental decision-useful information. We believe that the decision-useful information is the amount of the deferred tax asset because it is the amount that (1) meets the more-likely-than-not recognition and measurement requirements and (2) should be available to reduce future taxes. The existing and proposed UTB disclosures already provide sufficient information about UTBs, and users probably would not benefit

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from the knowledge of how the UTB is related to carryforwards as opposed to other temporary differences. While users may desire to understand the amount of UTBs netted against deferred tax assets in accordance with ASC 740-10-45-10A, we believe that this information will be available to them as a result of the disclosure requirements in proposed ASC 740-10-50-15A(c).

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

We recommend that the Board clarify certain aspects of the proposed guidance to make it more operable, as described below.

Disclosures About Carryforwards

We believe that, to be consistent with the discussion in paragraph BC82 of the proposal, proposed ASC 740-10-50-6A(a) should be revised to read, "The amounts of the federal, state, and foreign carryforwards *reported on the tax returns as filed* by time period of expiration." In addition, it is unclear whether proposed ASC 740-10-50-6A(b) is intended to require disclosure of (1) the tax effect of the loss or credit carryforward reported on the tax return as filed or (2) the related deferred tax asset after application of the recognition and measurement criteria in ASC 740-10-25-6 and ASC 740-10-30-7 (the FIN 48 criteria). If it is the former, we suggest that the wording be amended to the following: "The amounts of the tax effects of the federal, state, and foreign carryforwards before the valuation allowance." Likewise (and related to the disclosure intended by ASC 740-10-50-6A (b)), it is unclear whether the UTBs described in ASC 740-10-50-6A(c) would be (1) the UTBs related to the carryforwards themselves (i.e., the amounts needed to adjust the tax effect of losses or credit carryforwards reported on the tax return to the related recognized deferred tax assets before any valuation allowance), (2) other UTBs that are netted against the carryforward deferred tax assets under ASC 740-10-50-10A (added by ASU 2013-11), or (3) both.

Rate Reconciliation

We believe that the requirement in proposed ASC 740-10-50-12 to separately disclose reconciling items that are "more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate" may result in disclosure of items that are insignificant in relation to income from continuing operations when the federal income tax rate of a non-U.S. entity is significantly lower than the U.S. federal corporate income tax rate. We recommend that the FASB not amend this paragraph to require use of a specific percentage of the computed amount, thereby retaining the requirement to separately present only "significant" reconciling items. The existing disclosure requirement is more consistent with the Board's broader objective in its proposed disclosure framework to permit "the appropriate exercise of discretion by reporting entities." This approach would also reduce diversity in practice for parent entities that pass through federal income taxes to their owners and therefore have a tax rate of zero.

We recognize that the proposed threshold of 5 percent of the amount computed using the statutory tax rate would conform the disclosure to the current requirement in SEC Regulation S-X, Rule 4-08(h), "General Notes to Financial Statements." However, as part of its ongoing disclosure effectiveness initiative, the SEC recently issued a proposed rule that,

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among other things, seeks comment on whether certain of the SEC's disclosure requirements that overlap with U.S. GAAP requirements should be retained, modified, eliminated, or referred to the FASB. We recommend that the Board consult with the SEC to understand its views related to the rate reconciliation disclosure requirement.

We believe that proposed ASC 740-10-50-12 should be clarified to add more guidance related to the following sentence: "When the rate used by a public business entity is other than the U.S. federal corporate income tax rate, the public business entity shall disclose the rate used and the basis for using that rate." It is unclear whether this requirement is intended to apply whenever the U.S. federal corporate income tax rate is not used because, for example, the public business entity is not domiciled in the United States or whether there might be situations in which it would be appropriate to use a rate different from the statutory rate of the country of domicile. If it is the latter, the guidance does not clarify when such use would be appropriate.

Further, proposed ASC 740-10-50-12 indicates that in "situations in which the public business entity is a foreign entity, the income tax rate in that entity's country of domicile shall normally be used in making the above computation." However, proposed ASC 740-10-50-1B defines "foreign" as outside the reporting entity's home country. We recommend that to avoid confusion about the meaning of "foreign" in proposed ASC 740-10-50-12, the FASB replace "public business entity is a foreign entity" with "public business entity is not domiciled in the United States" or other similar wording.

In addition, we suggest that the first sentence of this proposed paragraph be updated to add "from continuing operations" after "multiplying the income (or loss)" to avoid confusion and to be consistent with the original wording because we do not believe the Board intended to change the meaning.

In the second sentence of this proposed paragraph, in the description of the rate that an entity not domiciled in the United States should use, we suggest that the wording be revised to "federal income tax rate" rather than just "income tax rate," assuming this is consistent with the Board's intent.

Disclosing Where on the Balance Sheet UTBs Are Presented

We do not believe that the requirement in proposed ASC 740-10-50-15A(c) to separately disclose UTBs that are not presented in the statement of financial position, or the example in proposed ASC 740-10-55-217, clearly describes what types of UTBs would be included in this disclosure. If the disclosure requirement applies to UTBs that are not recognized on the balance sheet, the only tax benefit we are aware of that may currently not be recognized in the financial statements is an excess tax benefit related to share-based payments that is not yet realized; however, such a tax benefit will be recognized in the financial statements once an entity adopts ASU 2016-09.

Also, see our comment above recommending clarification of the disclosure intended under proposed ASC 740-10-50-6A(c). We believe that it would be helpful to illustrate how the netting of a UTB against a deferred tax asset or a tax refund receivable should be presented in this disclosure to avoid diversity in practice.

Potential Effects of Enacted Changes in Tax Laws

Proposed ASC 740-10-50-22 indicates that entities “shall disclose an enacted change in tax law that is probable to have an effect in a future period.” We believe that this language is too open-ended and would be difficult to apply because there is no definition of “future period” or what length of time it would cover. We believe that a definition of future period (e.g., as one or two years from the reporting date) would provide more decision-useful information and would be more operable.

It is also unclear whether the proposed requirement is related only to a change in tax law that was enacted after the reporting date or also to a change that occurred before the reporting date and may already have been reflected in the financial statements, for example, through adjustments to deferred tax assets and liabilities. In addition, we believe that this type of information would already be provided as a result of existing disclosure requirements related to nonrecognized subsequent events.

Finally, we suggest that the Board consider expanding the description of the proposed disclosure requirement to clarify what information should be included in the disclosure (e.g., the nature of legislative changes, quantitative impact, affected financial statement line items).

Government Assistance

In addition to our comments above about the proposed government assistance disclosures, if the Board decides to retain the disclosure requirement in proposed ASC 740-10-50-23, we believe that the words “may reduce” and “broadly available” are not sufficiently prescriptive and therefore will be subject to a wide variety of interpretation, creating significant diversity in practice and difficulty in operability.

Disaggregated Disclosure of Foreign and Domestic Income (or Loss) and Income Tax Expense (or Benefit)

We believe that to improve the consistency of reporting of intra-entity eliminations and transactions, the Board should provide guidance on how to deal with such items in the disaggregated disclosure of foreign and domestic income (or loss) and income tax expense (or benefit). Such guidance would reduce current diversity in practice related to complying with the existing SEC disclosure requirement.

Question 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 defer to preparers' views on the potential incremental costs of the proposed disclosures, we do not believe that the incremental costs would be significant.

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

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why and which disclosures should be required for entities other than public business entities.

We have no concerns related to the exemption since in many cases users can obtain similar information from nonpublic entities directly.

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 add a cross-reference to ASC 235-10-50-3 in ASC 740-10-50-18 that directs users to guidance on disclosing other relevant accounting policies or methods of applying the accounting principles related to income taxes.

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 believe that ASC 740-10-50-15A(a.2) should be updated to remove references to “decreases” in current-year positions in the UTB rollforward, since entities report only an increase in UTBs resulting from current-year positions taken. (We think that this wording is a holdover from the exposure draft of FIN 48, which proposed that a UTB rollforward disclosure also be included in interim financial statements.)

In addition, we believe that ASC 740-10-55-219 should be revised to remove the parenthetical “(taxable income before carryforwards)” because income before tax and taxable income (as defined in ASC 740-10-20) are not usually the same.

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.

Yes, the proposed disclosures should be required only prospectively. Since the intention of the disclosures seems to be to give readers useful information upon which they can make investment decisions, restating prior-year disclosures would probably be of little value.

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.

While we defer to preparers' views on the time they would need to implement the guidance, we do not believe that an entity would require a long transition period because the additional disclosure requirements are generally straightforward; the entity is likely to have the information readily available; and few, if any, changes are likely to be required to the entity's systems. We also believe that the effective date of the final guidance should be delayed for nonpublic business entities by up to one year, as needed, to give such entities

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time to comply with the additional requirements. Furthermore, such a delay would allow nonpublic entities to observe and learn from public entities before the nonpublic entities had to implement the standard. All entities should be allowed to early adopt the guidance.