Grant Thornton

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Re: File reference number 2016-270

Dear Ms. Cosper:

Grant Thornton LLP appreciates this opportunity to comment on proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes* (the proposed Update). We commend the Board on its efforts 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.

Responses to Invitation to Comment questions

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.

Overall, we believe that the proposed amendments would result in more effective, decision-useful information about income taxes. We have provided further commentary regarding certain aspects of the proposed amendments in our responses to the specific questions below.

We would like to provide commentary herein regarding the proposed amendment to modify the existing rate reconciliation requirement for public business entities to be consistent with U.S. Securities and Exchange Commission (SEC) requirements and to further modify the requirement to explain the changes in those reconciling items from year to year. We encourage the Board to further collaborate with the SEC to determine whether this proposed amendment could be enhanced to result in even more effective, decision-useful information. For example, we understand that the SEC's Division of Corporation Finance (CorpFin) has continued to focus on income tax disclosures related to foreign earnings in its filing review process including concerns with respect to the reconciling line item in the rate reconciliation specifically associated with the foreign tax rate differential. Accordingly, we encourage the Board to collaborate with the SEC staff to discuss specific concerns and to share best practices with regard to this particular line item, as well as other line items, in the rate reconciliation. Based on that collaboration, the Board may decide to further enhance this proposed amendment, perhaps through providing specific guidance on what items can be aggregated and what items must be disaggregated, to result in more effective, decision-useful information. This collaboration is consistent with the SEC staff and the FASB being in contact throughout the course of developing proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements* (the proposed Concepts Statement). As acknowledged in the proposed Update, the proposed Concepts Statement, when finalized, would be used by the Board as a basis for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements. Therefore, we believe further collaboration with the SEC is not only appropriate but also consistent with the Board's acknowledgment in the proposed Concepts Statement that it intends to pursue every reasonable opportunity to work with the SEC to improve existing or potential disclosure requirements.

With respect to whether the proposed amendments would result in the elimination of decision-useful information, the proposed amendments would only eliminate the existing requirement for all entities to disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or to make a statement that an estimate of the range cannot be made. We do not believe that this proposed change would eliminate decision-useful information about income taxes. Rather, the proposed elimination may avoid negative consequences to the reporting entity should the estimate of such range turn out to be materially different due to circumstances beyond management's control. Accordingly, we fully support the Board's proposed elimination of this disclosure requirement, as it is much more of a forward-looking disclosure than a disclosure of future-oriented information that is useful.

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

Overall, we believe the proposed disclosure requirements are operable and auditable. However, we encourage the Board to clarify the proposed requirement to provide a description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period. While this proposed amendment would help users assess the prospects for future cash flows, we encourage the Board to clarify that quantitative disclosure of the future effects of the enacted change in the tax law is not required. If the Board intends to require the future effects of the enacted change in the tax law to be disclosed, we believe that this forward-looking disclosure would pose operability and auditability issues and would also result in significant incremental costs.

More specifically, the projection or forecast of the future effects of an enacted change in tax law may be based on uncertain or forward-looking events that are beyond management's control. Further, we believe that a quantitative disclosure of the future effects of enacted legislation would be inappropriate given such information is not an input to a current measure of a tax asset or liability. Additionally, as noted in the proposed Concepts Statement, the objective of financial reporting does not require management to assess the entity's prospects for future cash flows. Accordingly, management should not be required to assess and disclose the effects of an enacted change in the tax law on the entity's future cash flows. While we recognize that financial statement users may prefer a disclosure of the potential future effects of the enacted legislation, such disclosure would likely require an entity to make difficult estimates or judgments that pose operability and auditability issues.

We raise this particular concern, as during deliberation, the proposed amendment required a *qualitative* description of the enacted change in tax law that is probable to have an effect on the reporting entity in a future period (emphasis added). Yet, the proposed Update has struck the word *qualitative* from the requirement, thereby implying a scope change to also require a disclosure of the quantitative effects of the enacted legislation. While we do not believe this was intended given the background information and discussion in paragraph BC71 of the proposed Update, we recommend the Board revise this proposed disclosure requirement to explicitly state that an entity need not quantify the future effects of an enacted change in the tax law. With this explicit clarification, we believe the disclosure would assist financial statement users in making their own assessments as to the future effects of the enacted legislation while still being operable and auditable.

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

We are sensitive to the feedback provided to the Financial Accounting Foundation in its November 2013 Post-Implementation Review Report on FASB Statement No. 109, Accounting for Income Taxes (PIR on Statement 109). In conducting this review, the survey respondents and members of the resource group indicated that the ongoing costs pertaining to income tax accounting and reporting are already significant.

While we will defer to those in practice to comment on whether any of the proposed disclosure requirements impose significant incremental costs, we generally believe that any incremental costs and complexities imposed by the proposed requirements are justified by the expected benefits. However, we have concerns about the proposed amendment requiring an entity to disclose the description of a legally enforceable agreement with a government including the duration of the agreement, the commitments made with the government under the agreement, and the amount of benefit that reduces, or may reduce, its income tax burden. We understand the intention is to limit this disclosure requirement to agreements in which the government would determine whether an entity will receive assistance and/or how much assistance an entity will receive if the entity meets applicable eligibility requirements. Yet, we believe this proposed requirement needs clarification to avoid entities incurring significant incremental costs. For example, we do not believe that the proposed amendment should apply to circumstances in which an entity enters into an advance pricing agreement (APA) with the tax authority of at least one government specifying the transfer pricing methodology to be applied to related party transactions.

The primary purpose of an APA is to provide certainty to the taxpayer by agreeing in advance as to the arm's-length pricing or pricing methodology to be applied to the related party transactions covered by the APA. Since an APA is not intended to provide or convey any tax benefits to the taxpayer, we do not believe the proposed amendment would apply to it or to similar rulings granted by the taxing authority of a government, e.g., private letter rulings which are also intended to provide certainty to the taxpayer with respect to the tax consequences of a proposed transaction. However, this may not be free of doubt, as the European Commission has recently concluded that certain APAs granted by European Union (EU) Member States have provided selective tax benefits to the taxpayers under the EU state aid rules. As a result, some may question the intended breadth of the proposed amendment. Given this ambiguity, we recommend that the Board explicitly state that the requirement does not apply to advance pricing agreements, private letter rulings, or similar types of rulings entered into with a taxing authority to achieve certainty with respect to the tax implications of the covered transaction(s). Absent that clarification, entities that have entered into APAs or similar agreements with a taxing authority may incur significant incremental costs to adhere to the disclosure requirement while preventing the disclosure of confidential information.

Question 4: 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 appreciate that the Board considered a number of country-level disclosures to address feedback received regarding users' primary areas of focus on income taxes including the sustainability of an entity's tax rates and tax exposure in significant countries. These country-level disclosures may provide users with additional information to evaluate the amount, timing and uncertainty of future cash flows.

We expect the Board may receive commentary that it should require the disclosure of country-specific information that certain multinational corporations are required to report to taxing authorities effective for tax years beginning as early as January 1, 2016. Accordingly, we feel it is necessary to articulate the reasons why we are not in favor of such potential financial statement disclosure requirement. The tax law requirement, commonly referred to as country-by-country reporting, provides the taxing authorities with country-specific information pertaining to the tax jurisdictions in which the multinational group operates. The country-specific information includes revenues, profit (or loss) before income tax, total income tax paid, and total accrued tax expense excluding deferred taxes or provisions for uncertain tax liabilities. Certain indicators of the location of economic activity among the tax jurisdictions in which the multinational group operates also are required to be provided including stated capital, total accumulated earnings, total number of employees, and net book value of tangible assets.

At first blush, the Board may be interested in aligning country-level disclosures for financial statement purposes with the information potentially required under country-by-country reporting for tax compliance purposes. While this alignment may appear to be a favorable factor in the Board's evaluation of whether it would be cost beneficial to require such information, not all companies are subject to country-by-country reporting. For example, for

U.S. tax compliance purposes, country-by-country reporting is only required of a U.S. business entity that is the ultimate parent entity of a U.S. multinational enterprise group with $850 million or more in annual consolidated group revenues for the preceding year. As a result, companies with revenues below this threshold will not incur costs to report country-by-country information for tax compliance purposes. If the Board adopts an amendment to require country-by-country reporting for financial statement disclosure purposes regardless of the size of an entity, it would force entities with revenues below $850 million to incur substantial costs that otherwise are not being incurred for tax compliance purposes. Accordingly, the Board should evaluate whether the potential benefits of disclosing this country-specific information for financial statement purposes would justify the substantial costs to be incurred by entities not subject to this tax compliance requirement. For those entities subject to country-by-country reporting for U.S. tax compliance purposes, the information is required to be submitted to the taxing authority no later than the extended due date of the income tax return for the reporting year. In most cases, this means that the taxpayer has until the fifteenth day of the eighth month following the end of the relevant reporting year to submit the information to the Internal Revenue Service. In many foreign jurisdictions, the information is not required to be submitted until twelve months after the end of the relevant reporting year. This timing is well beyond when most entities prepare and provide users with their financial statements. As a result, significant incremental costs would be incurred by those entities subject to country-by-country reporting for tax compliance purposes in order to accelerate the compilation of this data for financial statement purposes. Further, the country-by-country report for tax compliance purposes is not required to be based on audited information. Should such information become a required income tax disclosure in audited financial statements, entities would incur substantial costs to develop appropriate internal controls. They would also incur incremental audit fees for the audit of such information. As a result, we believe that all entities would incur significant incremental costs to comply with a requirement to include this information as an income tax disclosure in financial statements.

The Board would also need to evaluate the costs and complexities of using the country-by-country information. In that regard, it is important to understand the intended uses by the taxing authorities of such information. The Organization for Economic Cooperation and Development (OECD) set forth its recommendation for country-by-country reporting in Action 13 in its Base Erosion and Profit Shifting Project. Such recommendation became the genesis for the country-by-country reporting legislation enacted by several countries, including the U.S. In its Action 13 Final Report, the OECD specifically stated that country-by-country reporting is intended to facilitate the various tax authorities in performing high-level transfer pricing risk assessments and in evaluating potential base erosion and profit shifting risks. It also explicitly stated that such information is not intended for the taxing authorities to propose transfer pricing adjustments to the income of any taxpayer based on a global formulary apportionment of income; further, it should not be used as a substitute for a detailed transfer pricing analysis of individual transactions and prices based on a full functional analysis and a full comparability analysis. Further, the OECD cautioned that such information, on its own, does not constitute conclusive evidence that transfer prices are or are not appropriate. While financial statement users may be similarly interested in this information to perform a high-level risk assessment of tax exposures in significant countries, the costs and complexities associated with such use would likely not justify any benefits. Similar to the constraints faced by the taxing authorities, financial statement users would not be able to use the information on its own to identify particular tax exposures even if they had the requisite specialized expertise. Given the additional analysis needed under complex tax laws, the information may, in fact, lead to improper judgments being made by financial statement users.

Recognizing that country-by-country reporting is intended as a risk assessment tool for the taxing authorities, the existing U.S. GAAP requirement to recognize and measure potential unrecognized tax benefits already provides users with certain information with regard to the tax exposures of an entity. In that regard, the Post-Implementation Review Report on Interpretation 48 (PIR on Interpretation 48) observed that tax reserves are more consistent and comparable across reporting entities as a result of the application of Interpretation 48. While concluding that the information provided by Interpretation 48 may not be useful in estimating future cash flows because of the use of a benefit-recognition model instead of a best-estimate approach, the Board did not propose a requirement for an entity to further disaggregate its unrecognized tax benefits because the current aggregate liability seems adequate for the users to perform their analyses on unrecognized tax benefits. Also, the Board did not propose a requirement for an entity to disclose an alternative measure for unrecognized tax benefits because it was not clear whether the alternative measure would be clearly useful. In recognition of these conclusions, we believe the existing U.S. GAAP requirements pertaining to potential tax exposures are sufficient.

We recognize that certain financial statement users expressed a desire to have information related to foreign income taxes at a more granular level to further their understanding of income tax exposures in various countries and to assess whether the current tax rate is sustainable. Yet, we advise against the Board adopting country-by-country reporting as a required income tax disclosure, as we believe the costs and complexities associated with it are not justified by the expected benefits. We are also mindful of the Board's consideration of whether it would be cost beneficial to require income taxes paid to be disaggregated for any country that is significant to total income taxes paid. Since such amounts are already compiled for purpose of the current disclosure requirements of Topic 230, *Statement of Cash Flows,* the Board concluded that entities could provide this disclosure at a relatively low cost. As with the Board, we believe this proposed amendment is responsive to users' desire to have some insight into a reporting entity's country-level tax exposure.

We encourage the Board to further reflect on whether the disclosure of income taxes paid should be aligned with the tax years to which they relate, which we believe would not result in significant additional costs to entities. While we acknowledge that certain preparer and practitioner stakeholders have provided feedback to the FASB staff during its outreach that disaggregation of income taxes paid by the tax years to which they relate could be misconstrued by users, we are equally concerned that users could misconstrue an aggregate disclosure of income taxes paid. For example, if certain users desire to derive a "cash tax rate" for modeling purposes, then the aggregate disclosure would not provide sufficient information with respect to the cash taxes paid for a particular tax year. Without the disaggregation of income taxes paid by the tax year to which they relate, a user could comingle taxes paid for different tax years to erroneously derive a cash tax rate for a particular tax year.

Further, without such disaggregation, one of the research findings of the PIR on Statement 109 may not be adequately addressed. That research found that the "income tax information provided in the financial statements may not be detailed enough for users to analyze the cash effects associated with income taxes, particularly *current period* taxes paid by jurisdiction (e.g., U.S. and foreign), and estimate future tax payments" (emphasis added). If the Board continues to not require the disaggregation of income taxes paid by the tax year to which they relate, then we recommend the Board consider limiting this proposed amendment to income taxes paid, disaggregated between domestic and foreign, without a further requirement to disclose the amount of income taxes paid to any country that is significant to total income taxes paid. This alternative disclosure would align with the proposed amendments to disclose: (1) income (or loss) from continuing operations before income tax expense (or benefit), disaggregated between domestic and foreign and (2) income tax expense (or benefit) from continuing operations, disaggregated between domestic and foreign. While we understand that certain users may desire more granular information with respect to income taxes paid, we have substantial concerns that the proposed amendment, as currently drafted, could result in misleading information and inappropriate decisions by such users.

Question 5: 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 recognize that one of the primary areas of focus on income taxes by financial statement users is with regard to the tax consequences of remittance of undistributed foreign earnings. We understand that certain users have stated that disclosing the indefinitely reinvested foreign earnings by country could help them assess tax strategies of reporting entities and would allow them to perform additional research on the consequences of remitting amounts from certain countries. We also understand that more recent outreach performed by the FASB staff suggests that users are more interested in understanding the tax consequences of remitting the earnings and the sustainability of the tax structure than knowing where the earnings are located.

With this user feedback in mind, we encourage the Board to further reflect on the proposed amendment to disclose the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries. To begin, we question why this proposed disclosure is considered an income tax disclosure given it would be void of any income tax considerations associated with such cash, cash equivalents, and marketable securities. We appreciate the Board's observation that such disclosure would be a data point that could provide users with some information about potential exposures to taxes when combined with other information in the financial statements. We understand that the liquidity of these assets makes them especially relevant when considering funding sources for a potential repatriation of foreign earnings that have been indefinitely reinvested. However, even without such liquidity, an entity could repatriate the foreign earnings through proceeds from a new debt borrowing. Moreover, the proposed amendment does not provide users with any specific information regarding the tax consequences associated with reinvested foreign earnings or other temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures. Further, we wonder what other information in the financial statements is being provided, that when combined with this proposed disclosure, facilitates clear communication of information that is most important to financial statement users. The proposed amendment, on the other hand, could provide misleading information, as such liquid assets may reside in foreign jurisdictions in which the foreign earnings have not been indefinitely reinvested.

We recommend that the Board limit the proposed amendment to the amount of cash, cash equivalents, and marketable securities held by foreign subsidiaries, but not in excess of the amount of earnings of such foreign subsidiaries that have been indefinitely reinvested. By enhancing the proposed amendment in this manner, financial statement users could better understand the potential tax consequences should a repatriation of the indefinitely reinvested foreign earnings occur through these liquid assets. This enhanced disclosure would provide users with a ceiling as to the amount of indefinitely reinvested earnings that could be more easily repatriated based on current liquidity (available cash, cash equivalents and marketable securities). We also understand, however, that certain preparer and practitioner stakeholders have provided feedback to the FASB staff during its outreach that determining the amount of cash, cash equivalents, and marketable securities associated with indefinitely reinvested foreign earnings would be costly and complex.

Alternatively, the Board may want to further evaluate whether additional guidance could be provided regarding the existing requirement to disclose the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration where the determination of such liability is practicable or a statement that determination is not practicable. In practice, most companies disclose that the determination of that liability is not practicable, as evidenced by the Board's Meeting Handout for its March 23, 2016 meeting. In that Handout, the FASB staff noted that 89% of the Fortune 500 companies that disclosed information about undistributed foreign earnings did not disclose the liability associated with those earnings because they said it was not practicable to do such. Given this prevalent practice, which is certainly understandable in light of the hypothetical and complex nature of the calculation, we appreciate that users may not be provided information that is sufficiently detailed to determine what the tax effects of foreign earnings deemed to be indefinitely reinvested would be if those earnings were repatriated.

While the Board evaluated whether simplifying assumptions could be set forth to facilitate the determination and disclosure of the unrecognized deferred tax liability, the Board decided to not pursue their use. However, we believe that such decision may have been reached concurrent with the Board tentatively deciding to require an entity to disclose separately the accumulated amount of indefinitely reinvested foreign earnings for any foreign jurisdiction that represents at least 10 percent of the total accumulated amount of indefinitely reinvested foreign earnings. See, for example, the Minutes of the February 11, 2015 Board Meeting. With the Board later reversing this tentative decision, it may be worthwhile for the Board to re-evaluate the use of simplifying assumptions to derive an estimate of the unrecognized deferred tax liability. For example, could the existing disclosure requirement be amended to require entities to calculate the unrecognized deferred tax liability based on the assumptions that the entire amount of temporary differences relating to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration would reverse as of the reporting date and in the most tax-efficient manner? This may mitigate the hypothetical nature of the calculation by addressing concerns related to the determination of the manner and timing of the repatriations as well as the appropriate foreign exchange rates. Even so, we nevertheless acknowledge the remaining complexities of the calculation including that the repatriation may include chains of entities with different tax costs due to varying foreign tax rates, the need to source the dividend from earnings and profits and related foreign tax credit pools, and the determination of any foreign tax credit limitations. To evaluate the viability of this alternative, the FASB staff may want to solicit additional feedback from those in practice.

Should the Board continue its decision to not allow simplifying assumptions, we would encourage the Board to evaluate whether any specific guidance could be issued that would result in more effective, decision-useful information with regard to the existing disclosure requirement. Such guidance, at a minimum, may include a definition as to the word “practicable” and the identification and weighting of the relevant factors in making such determination. Since we understand that the CorpFin staff have focused on this practicability exception in its filing review process, we encourage the Board to work with the SEC staff to determine if this existing disclosure requirement can be enhanced based on the specific concerns and best practices derived by the CorpFin staff in its filing review process.

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 designated exemptions for entities other than public business entities.

We note that the research conducted for purposes of the PIR on Statement 109 indicated that having income tax information sufficiently detailed for investors to analyze the cash effects associated with income taxes, particularly current period taxes paid by jurisdiction and estimate future tax payments was of particular concern to users of financial statements who analyze private companies. In that regard, the proposed amendment to disclose income taxes paid disaggregated between domestic and foreign, and the amount of income taxes paid to any foreign country that is significant to total income taxes paid is appropriate for all entities. On the other hand, the designated exemptions for non-public business entities can be provided, as we do not believe they are inconsistent with the particular concerns of financial statement users who analyze private companies.

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 do not believe that any other disclosures should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons. However, in our responses to other questions, we have noted that the Board may want to evaluate certain revisions to existing or proposed disclosure requirements.

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 do not believe that there are 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. However, in our responses to other questions, we have noted that the Board may want to evaluate certain revisions to existing or proposed disclosure requirements.

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.

While most of the proposed disclosures would be based on information that would be available for prior periods, we nevertheless believe the Board should allow prospective adoption of the proposed amendments, i.e., prior periods would not be required to be restated in the year in which the requirements are effective. However, we also believe that entities should not be precluded from restating prior periods in the year in which the requirements are effective should they choose to do such.

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 defer to those in practice to comment on the time that will be required to implement the proposed amendments.

We generally believe that non-public business entities may require more time to implement the proposed amendments given they often have less personnel and financial resources than public business entities. Accordingly, we believe they would benefit from a later effective date.

We do not believe that either non-public business entities or public business entities should be precluded from early adoption.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Lynne Triplett at 312-602-8060, lynne.triplett@us.gt.com, April Little at 832-476-3730, april.little@us.gt.com, or Dean Jorgensen at 612-677-5230, dean.jorgensen@us.gt.com. Sincerely,

/s/ Grant Thornton LLP