



**Robert D. Axel**  
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Mr. Russell G. Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: Effects of Tax Reform re ASC Topic 740**

Prudential Financial, Inc. (the “Company” or “Prudential”) would like to provide comments related to the interaction of tax reform and certain requirements in Accounting Standards Codification Topic 740, Income Taxes (ASC 740).

The FASB recently received a letter from the American Council of Life Insurers (ACLI) requesting a technical correction related to applying ASC 740-10-15. This guidance requires the impact of a change in rate to the amount of accumulated other comprehensive income (AOCI) related to deferred tax assets and liabilities (DTAs and DTLs) be recorded through income from continuing operations. This leaves AOCI with related deferred tax effects at the historical corporate rate of 35% (instead of the new tax rate of 21%). As securities mature or are sold, a disproportionate effect (i.e., the difference between the historical rate in effect when the item was initially established and the new tax rate in effect when it is ultimately realized) is either stranded in AOCI or must be reflected in continuing operations, depending on a company’s accounting policy.

We fully support the concerns expressed in the ACLI letter. In addition, we would like to highlight the following additional key concerns:

- 1) The current accounting model in ASC 740-10-15 would distort both Retained Earnings and AOCI. Insurance company valuations are driven by “book value” and “return on equity” metrics. Both of these measures are generally calculated excluding AOCI (removing interim fluctuations of investment valuations). As a result, the split between AOCI and Retained earnings is a material consideration for insurance companies. Failure to change current guidance would result in distortion of key metrics and comparisons and cause confusion amongst investors and other users of insurance company financial statements.
- 2) Depending on a Company’s policy, as significant volumes of bonds mature or are sold over time, income tax expense will be “artificially adjusted” as the AOCI related to the historical rate of 35% is cleared through the P&L. This effect will obscure the actual post-tax results of impacted companies.

While we realize there are several potential solutions, we believe that FASB should provide for a one-time “clean-up” in 2018 that would allow for a reclassification of amounts between AOCI and retained earnings to eliminate the mismatch between the historical tax rate and the newly enacted tax rate. We view this as a timely and practical means to mitigate the issue.

We would welcome the opportunity to discuss our views on this matter and hope that you will take our comments under consideration. We would be happy to engage in further discussion or provide clarification on this, or any other, matter at your request.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rob Axel", is positioned below the word "Sincerely,".

Robert D. Axel  
Senior Vice President and Corporate Controller