Date: January 8, 2018 at 5:06:32 PM EST
Subject: COMMENTS RE: MEETING--JANUARY 10, 2018

Ladies and Gentlemen:

This correspondence relates to your meeting on Wednesday, January 10, related to Financial Reporting Effects of the Tax Cuts and Jobs Act. Please consider the following comments in your deliberations, as your ultimate decision could immediately and significantly impact financial reporting/financial results of literally thousands of both public and non-public enterprises. I have, intentionally, made this as short and to the point as possible.

As you know, FASB Accounting Standards Codification (FASB ASC) 740, *Income Taxes*, more specifically FASB ASC 740-10-25-47, requires the effect of a change in tax laws or rates to be recognized at the date of enactment. FASB ASC 740-10-35-4 requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates. Further, FASB ASC 740-10-45-15 requires when deferred tax accounts are adjusted for the effect of a change in tax laws or rates, the effect should be included in *income from continuing operations* for the period that includes the enactment date.

This, of course, makes perfect sense, if the deferred income tax amounts have been previously considered in the determination of income from continuing operations. However, certain deferred income amounts have been determined through "balance sheet only" entries and have never been included in "income from continuing operations."

A perfect example is deferred income taxes resulting from certain entries related to Accumulated Other Comprehensive Income (Loss) (AOCIL), like unrealized gains/losses from available-for-sale securities. In this case, the securities are adjusted to fair market value and the resulting gain/loss is recorded, net of tax, as a component of AOCIL, resulting in a balance sheet only adjustment to either deferred tax assets or deferred tax liabilities. Such deferred tax adjustments are not, and have never been, included in income from continuing operations.

Therefore, it makes no practical sense that adjustments to such amounts, resulting from the change in tax rates, be included in income from continuing operations. Such entries should be balance sheet only, impacting, as appropriate, the respective deferred tax account and AOCIL.

A relatively simple and easily understandable way of amending the literature to eliminate the possibility of such inappropriate accounting would be to revise 740-10-45-15, as follows:

740-10-45-15 When deferred tax accounts/components, previously impacting income from continuing operations, are adjusted as required by paragraph 740-10-35-4 for the effect of a change in tax laws or rates, the effect shall be included in income from continuing operations for the period that includes the enactment date.

Thank you for considering these comments in connection with your deliberations. Should you require additional information, please contact me.

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