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Sent: Friday, January 19, 2018 9:31 AM
To: Director - FASB <director@fasb.org>
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Subject: Comments regarding ASU Proposal Reclassification Tax Effects from AOCI

I am writing today in response to the Proposed Accounting Standards Update (ASU) issued January 18, 2018 regarding FASB Codification topic Income Statement Reporting (Comprehensive Income Topic 220) addressing *Reclassification of Certain Tax Effects from Accumulated Comprehensive Income.*

My responses to the comment questions within the ASU are as follows:

Question 1) Do you agree with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate? If not, why?

Response: Yes I definitely agree with the reclassification of the stranded tax effects from AOCI to Retained Earnings. The primary reason is because of the implication toward the calculation the Bank's regulatory Capital; currently AOCI is not included in Regulatory Capital while Retained Earnings is included as permanent capital.

Leaving the stranded tax effect credit in AOCI due to the tax rate changes (assuming a deferred tax asset position) will result in impairment of Regulatory Capital because the Deferred Tax asset write-down lowers Net Income & Retained Earnings (permanent capital) and leaves an otherwise permanent credit of capital, due to the stranded tax effect, in AOCI (not included in Regulatory Capital). This credit would never be used toward Regulatory Capital if this change were not allowed.

Also since the Basel III regulatory Capital thresholds will only increase over time for all Banks, allowing this one-time reclassification into Retained Earnings (permanent Capital) eliminates the effect of impairment toward Regulatory Capital ratios, which are closely monitored by regulatory Agencies.

Finally, this proposal can be highly beneficial toward private smaller institutions where it could be costly to raise regulatory Capital to meet the Banking Capital standards. I applaud the FASB for making this proposal quickly to especially help community financial institutions who primarily serve the local consumers and small businesses to economically develop the geographic areas served.

Question 2: Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

Yes I agree with the transition provisions per the proposed change to Topic (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in paragraph 220-10-65-4. In addition to allowing 1 year to evaluate the tax effects of the change for more complex entities, for some financial institutions with simpler accounting, allowing early adoption and retrospective application allows a short time frame, but also appropriate, to make the changes before the 2017 annual financial statements are issued.

Question 3: Do you agree that early adoption should be permitted?

Yes reasons cited in Question 2

Question 4: Do you agree with the proposed effective date? If not, what effective date is more appropriate and why?

Yes reasons cited in Question 2

Question 5: GAAP generally prohibits backwards tracing, which is the process of recognizing the effects of changes in deferred tax amounts in the current year in the same line item in which the deferred tax amounts were originally recognized (for example, other comprehensive income) in prior years. The Board did not allow backwards tracing as part of this project and is currently researching the merits of a broader project on backwards tracing. Should the Board add a broader project on backwards tracing to its active agenda? If so, why? Additionally, should the following alternatives to backwards tracing be considered in that broader project? If so, why?

Yes I think a broader project should be added to address backwards tracing because allocating all tax effects to a component of comprehensive income is consistent to users of financial statements who read and analyze those statements for consistent application, whether that component is continuing operations, discontinued operations or accumulated comprehensive income (AOCI). This way the income tax effects are allocated to the components of comprehensive income which will allow a proper flow of pre-tax income and after tax effects of each component for consistent and uniform application. Currently the deferred tax rate changes are recorded into continuing operations while the pre-tax income is recorded in AOCI, resulting in an inconsistent approach and can lead to confusion to financial statement users.

a. Accounting for the release of the stranded tax effects from accumulated other comprehensive income Yes this should be considered in a broader project. Currently this proposal is only a one-time event due to the historical nature of the income tax rate change. Adding the release of any stranded tax effects will make the accounting guidance permanent and tax allocation appropriate to the components of comprehensive income; otherwise, any stranded amount may never be released from AOCI or may be too cumbersome to establish accounting and auditor policies to administer.

b. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with prior changes in other tax rates (for example, state and local taxes). No I do not think adding the state and local taxes should be part of a broader project for backwards tracing due to the complexity of the potential calculations involved and the cost benefit analysis of making this part of the broader project may not be worth the effort.

c. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with all future changes in tax rates Yes this should definitely be part of any broader project, otherwise, the issues we are having right now with the accounting requirements will only need to be addressed again when tax rates change in the future. Since this proposal only addressed the 2017 tax rate changes, adding the future rate changes to a broader project can help make these rules permanent and consistently applied.

Thank you! If there are any questions, please contact me.

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