



January 29, 2018

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
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**File Reference No. 2018-210**

Dear Ms. Cospers:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. We appreciate the opportunity to provide comments, and we support the Board's efforts to respond to stakeholder concerns related to the effects of the new Tax Cuts and Jobs Act on items within accumulated other comprehensive income (AOCI).

We support the proposed ASU and believe the changes described in the proposed ASU will reduce the costs and complexity associated with application of the new tax law as well as eliminate the potential impact on regulatory capital for certain financial institutions and insurance companies.

Our responses to the questions for respondents follow.

**Responses to Questions for Respondents**

**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?*

We are supportive of the reclassification from AOCI to retained earnings for the stranded tax effects resulting from the newly enacted federal tax law. We believe clarifying language should be added to "What Are the Main Provisions...", ASC 220-10-45-12A and BC8 to either indicate that the impact of the change in tax law should also include the reduction in the federal tax benefit of other deductible income taxes, or alternatively state that it would be based upon the change in the effective deferred rate as a result of the change in the federal law. For example, assume an entity is taxed in a state that has an 8% state tax rate. Because the state taxes are deductible on the federal corporate income tax return, the deferred tax effective rate prior to the change would be 40.2% (35% federal and 5.2% state, net of the 65% federal benefit). As a result of the change in tax law, the new deferred tax effective rate would be 27.32% (21% federal and 6.32% state, net of the 79% federal benefit). The change in deferred taxes as a result of the new law therefore only would be 12.88% of the gross timing difference. We are aware of some who are focusing only on the 14% change in the federal tax rate, and we don't believe that is what was intended by the proposed ASU. In fact that interpretation would actually over adjust AOCI and create a 1.12% stranded tax effect.

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

We agree with the proposed transition requirements.

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

We agree that early adoption should be permitted.

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

We agree with the proposed effective date.

**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?*

- a. *Accounting for the release of the stranded tax effects from accumulated other comprehensive income*
- 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)*
- c. *Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with all future changes in tax rates.*

We agree that the Board should add a broader project on backwards tracing to its active agenda. The stranded amounts in AOCI are complex for users of the financial statements to understand and appropriately eliminating them could improve the usefulness of the information, provided that it is not overly complex or costly for the preparers to implement. We are aware that in prior discussions the Board decided not to permit backward tracing because of the concern over the cost and complexity at that time. We do believe that some of the cost and complexity can be eliminated by allowing a reclassification from AOCI to retained earnings for the stranded tax effects associated with prior and future changes in tax rates as considered in b and c above.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017.

Sincerely,

*RSM US LLP*

RSM US LLP