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Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
Box 5116
Norwalk, CT 06856-5116

Re: FASB Proposal on Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

Prudential Financial, Inc. (the "Company" or "Prudential") welcomes the opportunity to comment on the Financial Accounting Standards Board ("FASB") Proposed Accounting Standards Update ("Update"), *Income Statement – Reporting Comprehensive Income (Topic 220); Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* – issued on January 18, 2018 with the comment period ending on February 2, 2018.

As noted in our comment letter of January 8, 2017 the issue of "stranded" AOCI is of particular importance to the insurance industry because 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 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. Because the impact of the recent tax rate change for items in AOCI is accounted for through net income (rather than AOCI), the retained earnings balance used for calculating "book value" and "return on equity" metrics will be misleading. Therefore, 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.

As such, Prudential greatly appreciates the FASB's timely response to stakeholder concerns in issuing the proposed Update and is in favor of its proposals. In addition, Prudential believes U.S. Generally Accepted Accounting Principles ("GAAP") can be further improved by permitting the use of backwards tracing with application to both changes in tax rates (U.S. and international) and changes in tax law, for reasons noted below.

The Company's responses to the specific questions presented in the proposed Update 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 effects resulting from the newly enacted federal corporate income tax rate? If not, why?

Prudential agrees with the amendments in the proposed Update requiring a reclassification of the stranded effects to retained earnings. This will immediately address some of the adverse effects that result from applying current GAAP to account for the tax rate changes enacted in the "Tax Cuts and Jobs Act of 2017" (the "Act"), as discussed in our comment letter dated January 8, 2018.

Notwithstanding this, the Act also established a "territorial" system for taxing foreign earnings. Generally, a US company that had not asserted permanent reinvestment will have accrued a 35% tax rate on AOCI of foreign operations. As a result of the changes in the Act and the establishment of a territorial system related to taxation of foreign affiliates, deferred taxes related to AOCI of foreign operations will be adjusted through current income; however, the proposed Update as currently worded would preclude the reclassification of the resulting stranded effects to retained earnings. To address this issue, we propose the following limited amendments to the proposed Update:

The Tax Cuts and Jobs Act of 2017 established a 21 percent U.S. federal corporate income tax rate and made certain other changes that impacted the rate at which earnings of foreign affiliates are taxed. An entity shall reclassify the effect of remeasuring deferred tax liabilities and assets related to items within accumulated other comprehensive income to retained earnings resulting from the Tax Cuts and Jobs Act of 2017. The amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income ~~at~~under the previously enacted U.S. federal corporate income tax ~~rate~~ law that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted ~~21 percent U.S. federal corporate income tax rate~~ tax law, excluding the effect of any valuation allowance previously charged to income from continuing operations.

Prudential also recognizes that reporting entities outside the life insurance industry may not have similar considerations and concerns that the accounting for stranded effects in AOCI presents to life insurers. Accordingly, Prudential would also support making the reclass an option rather than a requirement if necessary.

In the event that FASB decides against the changes to Codification proposed above, we urge the FASB to address this issue in the broader project mentioned in question 5 below.

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

Prudential believes the transition requirements of the proposed Update are appropriate.

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

Prudential agrees that early adoption of the proposed Update should be permitted.

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

Prudential agrees with the effective date included in the proposed Update, given that early adoption is permitted.

Question 5: GAAP generally prohibits backward 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 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.

Prudential supports adding a broader project on backwards tracing to the FASB agenda for the following reasons:

- Since stranded effects result from items that do not impact earnings, we believe backwards tracing will produce more accurate financial statements and;
- A one-time reclass to retained earnings (as proposed) would only address certain of the stranded effects related to the Tax Cuts and Jobs Act of 2017 and would leave unaddressed "other" stranded effects related to changes in state and local tax rates; international tax rates; and changes in tax law. To the extent the FASB does not proceed with the changes to the proposed Update as noted in our response to question 1, the project should address this issue.

Such other effects may not have a material impact on their own but could be material in aggregate. Prudential also recognizes that reporting entities outside the life insurance industry may not have similar considerations and concerns that the accounting for stranded tax effects in AOCI presents to life insurers. Accordingly, Prudential proposes that any broader project on backwards tracing also consider making the use of backwards tracing or alternative approaches an accounting policy option. We also believe that sufficient lead time should be allowed given that backwards tracing will require system enhancements.

In the event that FASB decides against "backwards tracing" we generally support the combination of the alternatives mentioned above for the following reasons:

a. We believe that alternative *a* addresses the impacts on AOCI for other changes in tax law beyond rates. For the reasons mentioned in our response to question 1, certain changes in tax law beyond US tax rates can create the same "stranded" AOCI impact, including as a result of the Act if the proposed Update is not revised. As a result, we agree that FASB should examine this question as part of its broader project.

b. We agree with alternative *b* because it will address stranded AOCI associated with past tax changes (assuming the considerations in alternative *a* have been addressed).

c. Assuming the considerations in alternatives *a* and *b* have been addressed, alternative *c* would also be an acceptable alternative to "backwards tracing" because it would result in an accurate reflection of the equity section of our balance sheet. We believe that users could easily discern the one-time income statement impact associated with tax rate changes.

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,

Robert D. Axel
Senior Vice President and Corporate Controller