From:	Larry Wilson
To:	Director - FASB
Subject:	File Reference No. 2018-210
Date:	Friday, February 02, 2018 4:39:46 PM
Attachments:	image001.png

Ms. Susan Cosper
Technical Director

Re: File Reference No. 2018-210
Dear Ms. Cosper:

I appreciate the opportunity to respond to the FASB's Proposed Accounting Standards Update, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

I have, intentionally, made this as short and to the point as possible. My comments are brief and have been presented, generally, in consideration of the thousands of non-public enterprises that will be required to follow the finalized ASU.
Although I realize there are numerous potential issues, including the effects of NOLs, foreign currency translation adjustments, valuation allowances, etc., the vast majority of enterprises have Accumulated Other Comprehensive Income (Loss) (AOCI) resulting only from changes in fair market value of Available-for-Sale (AFS) 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 AOCI, 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.

Notwithstanding the current literature (FASB ASC 740-10-45-15), 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 AOCI. This would eliminate the issue of reclassification from AOCI to retained earnings and, at the same time, prevent what, in my estimation, would be a misstatement of income from continuing operations.

A relatively simple and easily understandable way of amending the literature to eliminate the possibility of such inappropriate accounting would be to accept the concept of backwards tracing for such AFS items, and, perhaps others, and 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.

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?

I have no issues with the concept, as long as backwards tracing is initially allowed for those items of DFIT/AOCI that are easily determined, apparent and have never impacted income from continuing operations, which is the case, I would imagine, for the vast majority of non-public enterprises.

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

I agree with the proposed transition requirements.

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

Yes, I 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?

Yes, I 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

<u>with all future changes in tax rates.</u>

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I see no need for a broad project on backwards tracing. The Board should simply currently allow such accounting, in the limited circumstances discussed above.

Thank you.

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