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February 5, 2018

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Income Statement—Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (File Reference No. 2018-210)

Dear Ms. Cosper:

We are pleased to provide comments to the Board's amendments in this proposed Update, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

Plainly, the remeasurement of deferred income taxes due to the reduction of the corporate income tax rate to 21 percent results in a significant disproportionate tax effect within accumulated other comprehensive income under current GAAP, which disallows "backward tracing." We understand this accounting has an adverse impact to certain businesses within the banking and insurance industries, and are therefore sympathetic to FASB's proposal.

However, we have concerns with the operability and potential costs to implement the proposal across the broader financial reporting community. We recommend the final amendments provide computational clarifications and examples to adequately present the effects of a valuation allowance when recording the proposed reclassification entry. We also believe the impact of state income taxes should be addressed. Additionally, we recommend the Board allow entities to elect applying these amendments as opposed to requiring mandatory adoption.

Our responses to the Board's questions for respondents, including further explanation of our concerns are included in Appendix A to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Yosef Barbut at (212) 885-8292.

Very truly yours,

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Appendix A

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?

Generally, we agree. However, as explained below, we recommend making the final amendments optional.

Upon the enactment of a new, lower corporate income tax rate the previous rate of 35 percent is reduced to 21 percent and a significant 14 percent adjustment to deferred income taxes is required. This would result in a significant disproportionate effect in accumulated other comprehensive income (AOCI) for many reporting entities which would later have to be recycled to earnings, subject to an entity's accounting policy on recycling disproportionate effects. When the effects are recycled into earnings, it could have a distortive impact on current earnings. Therefore, a one-time "resetting" of two equity accounts as part of the enactment period accounting is likely appropriate.

Currently, the proposed update is not clear as to the reclassification amount. It is our belief that the Board needs to ensure the final amendments are clear and operable. In this context, our concerns about the language proposed in paragraph 220-10-45-12A follow in two parts.

Initially, we note paragraph 220-10-45-12A states *"the amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate 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."*

The proposed paragraph does not clearly articulate or provide an example of the correct method of application. Theoretically the reclassification amount should be derived from the gross temporary differences related to assets and liabilities which are accounted for through OCI as of the reclassification date.[1] Further, the current language in the proposed amendments could be interpreted in a variety of ways. For example, the reclassification adjustment is derived from the accumulated pre-tax income included in OCI and not from the tax-related balance. We recommend clarifying this by way of example to avoid any potential ambiguity in computing the reclassification amount.

Additionally, we believe the proposed amendments are not clear with respect to the date at which the reclassification amount should be determined. We recommend the Board revise the language in the proposed amendment to clarify whether the reclassification amount is to be based on the enactment date, or as of another date (for instance, as of the period ending immediately prior to the enactment period, or the period ending which includes the enactment date).

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[1] However, this information may not be readily available to some entities because of the manner in which they track and recognize temporary differences, another reason to consider making the final amendments optional.

Moreover, paragraph 220-10-45-12A indicates the reclassification entry should be determined *"excluding the effect of any valuation allowance previously charged to income from continuing operations."* However, there is no explanation as to why a reclassification is not required when a valuation allowance is charged to income tax expense, but would be required when a valuation allowance is recognized in OCI, nor as to the timing of when a valuation allowance initially recognized in OCI is later released to income tax expense. As such, we recommend the Board clarify what impact the valuation allowance has on the amount and timing of the reclassification entry. Specifically, we believe the final amendments will be more operational if they include examples of how to record the reclassification entry, considering the impact of a valuation allowance recorded through earnings, as well as when it is recorded through OCI. We would be happy to work with the FASB staff to develop these examples.

We also recommend addressing how state income taxes impact the determination of the appropriate reclassification amount.

Finally, while we understand the proposal is highly relevant to entities in certain specific industries, we do not believe it will provide an equal benefit to all entities such private entities with no significant assets and/or liabilities accounted for through OCI. And since the proposed accounting reclassification doesn't affect total equity, we recommend making the final amendments optional rather than mandatory.

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

We agree the transition requirements in the proposed Update are overall appropriate.

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

We agree that early adoption should be permitted as it would align the change in tax rate with the period in which it occurred.

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

We agree.

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 believe additional pre-agenda research is necessary before adding a broader project to revisit backwards tracing. While US tax reform is a significant development, we are not convinced the Board's limited resources should be allocated to this issue, particularly given its recent agenda-setting decisions that reflected extensive outreach with many different stakeholders.

That said, we note no guidance exists on how and when to account for a disproportionate tax effect (item "a" above). And while cost and complexity considerations were cited in the decision not to allow backwards-tracing under Topic 740, information systems are more sophisticated now than they were years ago. Further, a project along these lines might provide a convergence opportunity with IFRS.

On balance, we are open to further consideration if it appears warranted by additional pre-agenda research.