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May 28, 2019

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

RE: Proposed Accounting Standards Update (Revised), ***Disclosure Framework–Changes to the Disclosure Requirements for Income Taxes*** **(File Reference No. 2019-500)**

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Disclosure Framework–Changes to the Disclosure Requirements for Income Taxes.* We support the Board's objective to improve the effectiveness of financial statement disclosures by focusing on information that is most important to users.

We generally believe that the proposed amendments would result in more effective, decision-useful information about income taxes, consistent with the Board's objectives in its disclosure framework project. However, we recommend that the Board not require the proposed disclosure of the valuation allowance recognized on deferred tax assets for carryforwards (subparagraph 740-10-50-6A(c)).

We believe that to comply with the proposed disclosure requirement, a company may need to schedule the reversal of its deferred tax assets more precisely than is required under Topic 740 to determine the total valuation allowance. Specifically, we believe that requiring a company to apportion its valuation allowance to a specific group of deferred tax assets suggests that scheduling is required, which is inconsistent with the guidance in paragraph 740-10-55-15(c). That paragraph states that the tax-basis disclosure of the amounts and expiration dates of operating loss and tax credit carryforwards does not require scheduling.

Most companies evaluate their deferred tax assets for deductible temporary differences and carryforwards in aggregate, and 'detail-schedule' the reversal of those deferred tax assets only when necessary. For example, a company that has identified sources of taxable income of the appropriate character supporting some of its deferred tax assets generally does not further analyze the deferred tax assets to identify which to benefit first, unless its valuation allowance assessment is sensitive to reversal timing and patterns. Complying with the proposed disclosure requirement would require a change in this approach.

In addition, we believe the proposed disclosure would increase costs for preparers and conflict with the Board's previous decision on the benefits to users of allocating the valuation allowance to specific deferred tax assets. In developing Statement No. 109, the Board considered and

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rejected specific allocation of the valuation allowance to current and noncurrent deferred tax assets. Instead, it required pro rata allocation in classified balance sheets because that method did "not create the impression that detailed scheduling is required for situations in which it otherwise could be avoided" (FAS 109, par. 152(c)). ASU 2015-17 eliminated the allocation requirement entirely to reduce cost and complexity for reasons described in paragraph BC13.

Our responses to the Questions for Respondents are in Appendix I to this letter. Our additional observations are in Appendix II.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Angie Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

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Appendix I – Responses to Questions for Respondents

Question 1: Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

We generally believe that the proposed amendments would result in more effective, decision-useful information about income taxes, consistent with the Board's objectives in its disclosure framework project. We do not believe that the proposed amendments would eliminate decision-useful information.

However, we believe certain changes to the proposals would facilitate consistent application across entities.

Periods to be disclosed (paragraphs 740-10-50-6A and 740-10-50-8A)

The proposals do not specify which periods an entity should include when disclosing the disaggregation of carryforwards. We recommend that the final ASU explicitly require an entity to disclose the disaggregation of carryforwards as of the most recent balance sheet date only.

Carryforward disclosure by entities other than public business entities (paragraph 740-10-50-8A)

As proposed, entities other than public business entities would disclose carryforwards on a gross basis, while public business entities would disclose the tax-effected amounts of those carryforwards. It is not clear to us why the Board concluded that the concerns raised in paragraph BC73 about gross disclosure for public companies were not equally relevant for private companies. We believe it may confuse users when public and private companies include similarly-labeled disclosures about items that are measured differently.

We believe it would be relatively simple for public and private companies to compile tax-effected amounts and that financial statement users would understand those amounts.

Basis for net operating loss (NOL) carryforwards (paragraphs 740-10-50-6A and 740-10-50-8A)

In many cases, companies reduce deferred tax assets for carryforwards with unrecognized tax benefits because of uncertainties about the amount of benefit resulting from transfer pricing arrangements with foreign subsidiaries. In those situations, an unrecognized tax benefit in the domestic jurisdiction may be offset economically with a recognized tax benefit in the foreign jurisdiction, e.g. when there is a tax treaty between the two jurisdictions. The recognized foreign tax benefit may increase a deferred tax asset for an NOL carryforward in the foreign jurisdiction.

When applying the proposed requirements in paragraphs 740-10-50-6A and 740-10-50-8A to this situation, it is unclear whether an entity would always disclose the deferred tax assets (or gross

carryforwards for private companies) in each jurisdiction including foreign on an 'as-filed' basis when the as-filed benefit is *less than* the measured benefit for financial reporting purposes. Paragraph 740-10-55-15(c) and the proposed Example in 740-10-55-220 suggest that this disclosure would be required.

We recommend that the Board require an entity to prepare the amounts disclosed (1) after adjusting for unrecognized tax benefits and related indirect effects, which would better align with the recognition, measurement and presentation principles of Topic 740 or (2) on an as-filed basis with separate disclosure of unrecognized tax benefits and indirect effects.

We believe including indirect benefits resulting from either approach described in the preceding paragraph would provide users with a more complete picture of the overall effect of the uncertainty and would promote consistency across companies.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We generally believe that the proposed disclosure requirements are operable and auditable. However, we believe the Board should clarify when an entity 'may' versus 'is required to' reconcile to a rate other than the rate of its country of domicile as described in paragraph 740-10-50-12.

The proposed disclosure states, "the federal or national income tax rate in that entity's country of domicile shall normally be used." While the proposed language is conceptually consistent with the requirement in SEC Regulation S-X 210.4-08(h), neither the proposal nor Regulation S-X indicates under what circumstances a departure from the rate in the entity's country of domicile would be permissible or required. We observe inconsistent application of the existing Regulation S-X requirement, primarily when companies have significant US operations, but are domiciled in low-rate tax jurisdictions. We believe that increased comparability in this area would benefit financial statement users and thus recommend that the Board provide objective criteria to clarify when a departure from the rate in the country of domicile is appropriate.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

As discussed in our cover letter, we recommend that the Board not require the proposed disclosure of the valuation allowance recognized on deferred tax assets for carryforwards (subparagraph 740-10-50-6A(c)).

We believe that to comply with the proposed disclosure requirement, a company may need to schedule the reversal of its deferred tax assets more precisely than is required under Topic 740 to determine the total valuation allowance. Specifically, we believe that requiring a company to apportion its valuation allowance to a specific group of deferred tax assets suggests that scheduling is required, which is inconsistent with the guidance in paragraph 740-10-55-15(c).

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That paragraph states that the tax-basis disclosure of the amounts and expiration dates of operating loss and tax credit carryforwards does not require scheduling.

Most companies evaluate their deferred tax assets for deductible temporary differences and carryforwards in aggregate, and 'detail-schedule' the reversal of those deferred tax assets only when necessary. For example, a company that has identified sources of taxable income of the appropriate character supporting some of its deferred tax assets generally does not further analyze the deferred tax assets to identify which to benefit first, unless its valuation allowance assessment is sensitive to reversal timing and patterns. Complying with the proposed disclosure requirement would require a change in this approach.

In addition, we believe the proposed disclosure would increase costs for preparers and conflict with the Board's previous decision on the benefits to users of allocating the valuation allowance to specific deferred tax assets. In developing Statement No. 109, the Board considered and rejected specific allocation of the valuation allowance to current and noncurrent deferred tax assets. Instead, it required pro rata allocation in classified balance sheets because that method did "not create the impression that detailed scheduling is required for situations in which it otherwise could be avoided" (FAS 109, par. 152(c)). ASU 2015-17 eliminated the allocation requirement entirely to reduce cost and complexity for reasons described in paragraph BC13.

Question 4: One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

While we agree with the Board that disclosing pretax income (or loss) from continuing operations before intra-entity eliminations would provide the most comparable, decision-useful information, we believe it may be operationally difficult and costly for some preparers to prepare pre-elimination amounts.

For example, a US parent company generally would not prepare separate US GAAP financial statements inclusive of intra-entity transactions for a foreign subsidiary that does not have a contractual or regulatory US GAAP financial statement requirement. If the Board requires presentation of pre-elimination amounts, the US parent would need to prepare incremental US GAAP financial information for those foreign subsidiaries and develop controls over that process solely for purposes of satisfying this disclosure requirement. We believe that the cost and complexity of making this change to Topic 740 is beyond what the Board anticipated as described in paragraph BC21.

We recommend that the Board consider other alternatives – e.g. require that intra-entity transactions be disaggregated based on their contractual terms – or remove the prescriptive guidance and require that an entity disclose how it handled intra-entity transactions when determining pretax amounts.

Question 5: Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?

We believe that disaggregating income tax expense (or benefit) from continuing operations by major tax jurisdiction would result in decision-useful information if the entity also disclosed the related pre-tax income (loss) from continuing operations by tax jurisdiction. However, to make the disclosure operable and comparable, we believe that the Board needs to consult financial statement users on how to define 'major' using an objective threshold that is set sufficiently high to limit the disclosure to information that is decision-useful.

Question 6: The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.

We support using a threshold consistent with SEC Regulation S-X 210.4-08(h) because registrants need to comply with that threshold in their filings regardless of the US GAAP requirement.

However, we recommend that the Board work with the SEC to reconsider whether there is an alternative to the existing 5% of 'expected' tax expense that would result in more decision-useful information. For example, the SEC and the Board could increase the threshold to 10% of expected tax expense or lower the threshold to 2% with a new benchmark, such as pretax income.

We observe that with US tax reform and the pervasiveness of companies with US operations domiciled in low-tax jurisdictions, the current 5 percent threshold in Regulation S-X results in disclosing reconciling items that may be immaterial to the financial statements taken as a whole.

For example, a reporting entity with a parent company domiciled in the United States needs to disclose each reconciling item that is equal to or greater than 1.05% (21% × 5%) of pretax income. A reporting entity that has US operations but whose parent company is domiciled in Ireland needs to disclose each reconciling item that is equal to or greater than 0.625% (12.5% × 5%).

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

We have not identified other items that we believe an entity should be required to disclose.

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Question 8: Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

We have not identified other disclosure requirements that we believe should be removed from US GAAP.

Question 9: The proposed amendments would replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary of the Codification. Do you agree with the change in scope? If not, please describe why.

We support the proposals to replace the term *public entity* with the term *public business entity*.

Question 10: Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

We believe that an entity should be permitted but not required to retrospectively apply the proposed disclosures on an item-by-item basis. While we believe that retrospective application generally improves comparability, we understand that the benefits of retrospective application of the proposals may not justify the costs.

Question 11: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

We believe that an entity should be permitted to early adopt the amendments. We believe the benefits of providing the additional disclosures outweigh concerns about the decreased comparability among tax-paying entities.

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Appendix II – Additional Observations

Consistent use of terminology

It is unclear whether the Board intended for the terms *country of domicile* (paragraphs 740-10-50-1B and 50-12) and *jurisdiction of domicile* (paragraphs 740-10-50-10B and 50-22) to have different meanings. We recommend that the Board use a single term or explain the difference between the two terms.

The proposal uses the term *state* throughout. We believe the Board intends for this disclosure to include all subnational income taxes in a company's country of domicile, even when that country does not use the term *state*. Therefore, we recommend that the Board use the term *domestic state or region* in place of *state*.

The proposal also uses the phrase *do not expire* in the proposed disclosure of NOL carryforwards. In contrast, the Tax Cuts and Jobs Act characterizes these carryforwards as *indefinite*. Therefore, we recommend that the Board use the term *are indefinite* in place of *do not expire*.

Consistent application with SEC guidance

SEC Regulation S-X 210.4-08(h) requires an entity to disclose if it uses a rate "other than the United States Federal corporate income tax rate," while the disclosure threshold under the proposals would be a rate "other than the federal or national income tax rate in the entity's country of domicile." To promote consistent disclosures, we recommend that the Board use terminology consistent with Regulation S-X or ask the SEC to consider proposing a change to Regulation S-X.

Clarification of example disclosure

Example 30 in paragraph 740-10-55-217 discusses tax years under examination related to federal income taxes. We believe the example may imply that an entity is required to disclose only tax positions related to federal income taxes. We recommend that the Board expand Example 30 to (1) address other major jurisdictions (including states) and clarify which tax years remain open to examination in those jurisdictions or (2) state that the entity's only major jurisdiction is US federal.

Clarification of taxes paid

Paragraph 230-10-50-2 requires entities to disclose income taxes paid during the period. Entities frequently receive income tax refunds while also paying income taxes. Because the Codification does not provide guidance on the treatment of income tax refunds received, some entities net income tax refunds against income taxes paid while others disclose the gross amount of income taxes paid. We recommend that the Board clarify whether disclosures about income taxes paid should be net of refunds received.

Periods required

The Codification does not specify for which periods an entity should disclose:

- Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital (paragraph 740-10-50-3); and
- The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent (subparagraph 740-30-50-2(c)).

We recommend that the Board specify whether those disclosures are required as of the most recent balance sheet date only or as of all balance sheet dates presented.

Codification structure

Paragraph 220-10-50-1 requires an entity to disclose its policy for releasing the income tax effects from accumulated other comprehensive income. We believe it would be easy for entities applying Topic 740 to overlook this requirement and recommend that the Board cross reference from Topic 740 to paragraph 220-10-50-1.

Paragraph 230-10-50-2 proposes requiring entities to disclose income taxes paid during interim periods. Subtopic 270-10 outlines the disclosures required for interim periods, but does not require or refer to the disclosures in Subtopic 230-10. Consequently, it may be easy for preparers of interim financial statements to overlook this requirement. We recommend that the Board include a cross reference from Subtopic 270-10 or Subtopic 740-270, which address interim periods, to paragraph 230-10-50-2.

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