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May 31, 2019

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

Via email: director@fasb.org

RE: File Reference No. 2019-500 *Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes; Revision of Exposure Draft Issued July 26, 2016*

Dear Chairman Golden:

The American Bankers Association¹ (ABA) welcomes the opportunity to comment on *Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes; Revision of Exposure Draft Issued July 26, 2016* (the Revised Exposure Draft).

We appreciate the Board's continuing efforts to improve the effectiveness of disclosure requirements. Providing users of financial statements with accurate and usable information is critical and promotes transparency that facilitates appropriate decision making by investors. We support these objectives.

We thank the Board for revising many of the updates proposed in the original exposure draft. The Revised Exposure Draft is a substantial improvement over the original proposal and properly incorporates many comments and the impact of tax reform legislation. However, we respectfully have concerns with certain enhanced disclosure changes described in the Revised Exposure Draft. Our concerns arise because we believe many of these enhanced disclosures will not provide material and decision-useful information to users of the financial statements.

Before addressing the questions set forth in the Revised Exposure Draft, as a general matter related to the disclosures, we understand that the revised disclosure framework requirements are annual, with the exception of total cash taxes paid with respect to the statement of cash flows. Most of the disclosures are tied to tax information that is available annually and accordingly,

¹ The American Bankers Association is the voice of the nation's \$18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard nearly \$14 trillion in deposits, and extend more than \$10 trillion in loans.

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should be prepared on that basis. However, the guidance is not explicitly clear on this point. Therefore, additional guidance is requested to clarify the frequency of the disclosures.

Our remaining comments and recommendations correspond to the questions posed in the revised exposure draft.

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 believe the existing disclosure requirements of ASC 740 generally reflect a fair and accurate balance of tax disclosures needed to provide decision-useful information for users of the financial statements and do not believe that any decision-useful information is being eliminated by the Revised Exposure Draft. While the existing disclosure requirements may result in some diversity in reporting, this diversity reflects the complexity inherent in reporting income taxes across various size and types of industries over a variety of taxing jurisdictions. As such, we feel the existing framework fairly reflects the material tax impacts affecting the financial statements. We have attempted to summarize below why we feel the following proposed changes do not provide more effective and decision-useful information.

Carryforward and Expiration Dates Disclosure:

We agree with the revisions in the Revised Exposure Draft to focus the carryforward disclosure presentation on a tax-effected basis and align it with existing disclosures for deferred tax assets. However, we do not believe that the proposed disclosure of expiring carryforwards disaggregated by jurisdiction for each of the subsequent five years enhances the usefulness of this information. Complexities related to the number of entities within an organization and the number of foreign and state jurisdictions that these various entities may operate in, will significantly impact the costs associated with gathering and reporting this information. In addition, we feel the disclosure of expiring carryforwards by period provides limited decision useful information to the user of the financial statements.

For some organizations, especially larger organizations, the associated costs of implementing and auditing this disclosure could be substantial. Existing tracking systems would have to be modified to track and maintain the expiration periods on a more frequent basis. In addition, for decentralized organizations, incremental cost may be incurred to collect and report data that currently might be immaterial in relation to the total carryforward amounts. These costs add little or no incremental value for tax reporting, especially if determinations have been made that the carryforwards are offset by valuation allowances.

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We also have concerns regarding the proposed disclosure of unrecognized tax benefits and valuation allowances offsetting carryforwards being duplicative and difficult to separately calculate due to the interplay of each with non-carryforward deferred tax assets and liabilities. Further, grossing up the carryforward deferred tax asset for unrecognized tax benefits would mislead the user into thinking that a benefit that does not exist in the financial statements is available to be realized. In the existing disclosure requirements, unrecognized tax benefits are presented in total and material changes are explained. In addition, as noted below, material changes in valuation allowances are already required to be disclosed and explained. We believe the level of complexity created by these disclosures is not warranted and will not create meaningful decision-useful information to users.

After implementing reporting carryforwards on a tax-effected basis, users should have an appropriate level of relevant carryforward information.

For entities other than public business entities, assuming the more streamlined disclosure noted above is adopted, we would recommend that the carryforward disclosures be made consistent. We believe that providing tax-effected information is important in providing relevant information.

Valuation Allowance Disclosure:

The Revised Exposure Draft proposes the disclosure of the total amount of valuation allowance and amounts of increases and decreases that occur during the reporting period. In addition, it is proposed that explanations be provided for these changes. Currently, information related to material changes would be disclosed in the tax rate reconciliation or in Management Discussion and Analysis (MD&A) for SEC registrants. Therefore, we believe that the decision-useful information is already being provided for material valuation allowance changes. For this reason, we recommend that this proposed change be removed or qualified to encompass only material changes to the valuation allowance with appropriate guidance as to the nature of the disclosure.

Unrecognized Tax Benefits Disclosure:

We support the removal of the existing disclosure requirement associated with reasonably possible changes to unrecognized tax benefits within the next 12 months.

Income Taxes Paid:

We continue to have concerns related to the requirement of reporting, on a disaggregated basis, income taxes paid to federal, state and foreign jurisdictions. The timing and amount of tax payments do not directly correspond to pre-tax earnings due to book / tax differences, payment

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rules, tax credits, audit settlements, penalties, interest, etc. Accordingly, the disclosure of these disaggregated amounts may not provide decision-useful information and may, in fact, create confusion or mislead the user of the financial statements. There are significant differences in the multitude of regulations and procedures that determine the timing of tax payments that would make this disclosure difficult, if not impossible to be useful.

For some organizations, especially de-centralized organizations, the collection of this data at a more granular level may be time-consuming and costly given this data is not readily available within Enterprise Resource Planning (ERP) systems.

If this disclosure is required, additional guidance is requested regarding the definition of taxes paid. For example, the treatment of refunds and deposits made in connection with the administration of disputes will need to be addressed.

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

See comments above.

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

See comments above.

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?

Income (or Loss) From Continuing Operations:

Currently, the SEC requires the disclosure of income (or loss) from continuing operations before income tax expense, disaggregated by domestic and foreign operations, if the foreign operations exceed a 10% threshold. We believe that requiring disclosure of income (or loss) from continuing operations before intra-entity eliminations and before income taxes, will create significant operational challenges and result in significant implementation costs, without providing meaningful data to the user of the financial statements.

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We also have concerns that this level of detail is not required in any other disclosure or GAAP requirement. This creates a new reporting item and the potential need for reconciliations to existing disclosures, again with limited benefit to the users of the financial statements.

Currently, there is significant diversity in the manner in which ERP and tax systems are set up to handle different types of intra-entity eliminations. In some cases, these intra-entity elimination adjustments are commingled with other consolidating reclassification adjustments, IFRS to GAAP adjustments, and other consolidation adjustments. Requiring the disaggregation before intra-entity eliminations could result in significant cost related to modifying how these elimination adjustments would need to be segregated to report income before intra-entity eliminations.

In addition, the exclusion of intra-entity eliminations could possibly present misleading data. For example, assume there is an intercompany sale of assets between two foreign entities. The pre-tax income of the seller could be effected by a significant intra-entity gain which could potentially mislead the financial statement user into believing there is significant growth in foreign operating activity.

Because of the costs and complexity associated with proposed change, we recommend that this disclosure requirement be removed. If the Board concludes this change is needed, we would be supportive of an accounting policy election for the disclosure, when amounts are material to the financial statements and preparers believe it provides meaningful information.

Questions 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 agree with the Board's current view that disaggregation at a granular jurisdiction level would not provide helpful information to users. Currently, disaggregation of income tax expense (benefit) between federal, state, and foreign taxes is required. We believe that expanding this disclosure to report by "major tax jurisdiction" would present significant operational challenges and present possible misleading information.

For example, specific guidance is needed to understand what constitutes a "major tax jurisdiction". If the underlying tax liability is the basis for determining what constitutes a "major tax jurisdiction", there are a variety of complexities that arise. Examples include variables such as material entity income changes, tax rates, tax credits, audit settlements, and allowance releases that may distort period over period comparability of the information. This would lead to extensive disclosure to address changes that may be insignificant in relation to the amount of tax

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expense recognized in the financial statements. The size and complexity of the organization's tax footprint will significantly impact the implementation and audit cost associated with this type of disclosure. We also note that country by country reporting is now in place in most international tax jurisdictions and managed by tax authorities. We believe this is the appropriate place for these complex and detailed disclosures; not in the public financial statements. For these reasons, we do not believe that this disclosure would be operable.

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 the alignment of the 5% rate disclosure with SEC Regulation S-X 210.4-08(h). However, we disagree with the proposed disclosure related to providing an explanation of the year over year change in each reconciling item within the rate reconciliation. Currently, if significant changes occur, year over year, impacting the effective tax rate, then those changes are typically disclosed in the MD&A section, other footnotes or within the tax footnote. In many cases, the year over year changes are caused by pre-tax income fluctuations or just normal growth in the business activity (i.e., an increase in tax-exempt investments). We believe that the current disclosure requirements result in companies reporting explanations that adequately explain the material changes impacting the tax rate without mandating potentially irrelevant explanations for various inconsequential changes in other reconciling items. If an additional disclosure is required, additional background on the content of the required explanations should be included.

The requirement of "showing the reporting currency amount" in Section 740-10-50-12 is confusing. The currency reference appears to be out of place and we believe may not be understood by preparers. Additional guidance is necessary with respect to the disclosure.

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 do not believe additional disclosure is needed related to the Tax Cuts and Jobs Act.

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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 do not believe additional disclosures need to be removed related to the Tax Cuts and Jobs Act.

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 5 of the Codification. Do you agree with the change in scope? If not, please describe why.

We agree with this proposed change. We also recommend that the final standard make clear that underlying subsidiaries of a public business entity would not be subject to the additional disclosures absent a separate company reporting obligation.

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 the existing income tax disclosure rules adequately meet the diversity and complexity inherent in the reporting of income tax expense. If enhanced disclosure is required, as outlined in the revised exposure draft, then we support a prospective application of those proposed changes.

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.

Given the challenges and costs many organizations may encounter associated with modifying systems and controls to meeting these enhanced reporting requirements, we recommend that any proposed changes be effective two years after finalizing the changes, however, believe early adoption should be permitted.

We have prepared our comments in line with the questions posed in the exposure draft. That said, our priority concerns relate to additional detail in the carryforward schedules (refer to comments in Question #1) and the disclosure of intra-entity income before eliminations (refer to comments in Question #4).

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Thank you for considering our comments. If you need additional information or have questions, please contact John Kinsella (jkinsella@aba.com; 202-663-5317), Josh Stein (jstein@aba.com; 202-663-5318) or me (mgullette@aba.com; 202-663-4986).

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Gullette". The signature is written in a cursive style with a large initial "M".

Michael L. Gullette