



Regina Rose
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May 31, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference No. 2016-270
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Comments on Exposure 2019-500: Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update (Revised) (ASU), **Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes**

Dear Mr. Kuhaneck:

The American Council of Life Insurers (ACLI)¹ greatly appreciates the opportunity to provide comments on your recently proposed revised ASU regarding income tax disclosures.

The Financial Accounting Standards Board's (FASB) comprehensive and balanced approach to updating the current tax rules dealing with income tax disclosures is commendable. ACLI appreciates the careful consideration given to balancing the benefits in providing useful information with the expected cost and complexities. We believe that is very important in achieving relevant and consistent information among all entities.

Overall, ACLI believes that the amendments to the existing tax disclosures are warranted in the evolving global environment to provide meaningful, effective and decision-useful information. ACLI provided comments on certain proposed amendments to the initial update in 2016 and would like to provide additional comments for consideration on **one notable amendment pertaining to the income statement related disclosures provided in Section 740-10-50-12.**

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 280 member companies operating in the United States and abroad. ACLI advocates in state, federal, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 95 percent of industry assets, 92 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Learn more at www.acli.com.

In Section 740-10-50-12, the proposed guidance for public business entities provides that “an explanation of the year-to-year change in an amount or percentage of a reconciling item also shall be disclosed.” ACLI continues to believe that this amendment would be redundant and that its broad nature as written could lead to either extensive qualitative explanations or conversely, very brief explanations of which neither would provide decision-useful information to the reader. As an example, life insurance companies invest in bonds and stocks that generate tax-preferred investment income and typically result in a reconciling item in the effective rate reconciliation. In the normal course of business, these investments will be acquired, sold, or matured during the year resulting in a year-over-year change that would impact this reconciling item reported. Providing an explanation of this year-over-year change as part of the rate reconciliation would:

- 1) Be redundant as it would have the tax footnote disclosure describing changes in underlying pre-tax activities that are already described in other footnotes,
- 2) Not serve to provide any additional useful or meaningful information for the reader to better understand the rate reconciliation; and
- 3) May result in inconsistencies among preparers due to the broad nature of this guidance with no clarity on when an explanation is necessary.

The above would also be the result for many other types of reconciling items, including those that are already covered in other tax-related disclosures (e.g., equity compensation, or changes in a deferred tax asset subject to a valuation allowance). In addition, pre-tax income can be the predominant driver of large year-over-year fluctuations in an entity’s effective tax rate. These situations should be apparent to a reader when the financial statements are reviewed in totality and do not require further discussion. In general, tax footnotes should be limited to describing the tax impacts of transactions within the financial statements and should not be providing commentary or explanations regarding business trends or changes associated with pre-tax income.

Currently, ASC 740-10-50-14 provides the applicable guidance requiring explanations on any significant matter affecting comparability which would include changes in reconciling items year-to-year. This section specifically provides that “an entity shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented”. In applying this requirement to the above example, the company would not describe a year-over-year change in tax-preferred investment income if the change is in the normal course of business and not significant or unusual, but would include an explanation if the company disposed of a significant portion of its portfolio and the year-over-year change is significant. ASC 740-10-50-14 in this case would require a qualitative explanation for this change that would be meaningful and provide the decision-useful information to the financial statement reader. Requiring a public business entity to provide an explanation of the year-to-year change under 740-10-50-12 along with the requirement to disclose significant matters affecting comparability under 740-10-50-14 would be redundant to such information already disclosed elsewhere in the financial statements, and as previously mentioned, would not provide any additional meaningful information to the reader.

ACLI appreciates the opportunity to comment on the updated disclosures regarding income taxes to provide more useful information to the financial statement readers. However, we continue to believe that relying on the existing guidance and judgment of a public business entity to determine when qualitative explanations are needed as required by ASC 740-10-50-14 provides the best and most meaningful disclosures to users of financial statements. We do not believe that a broad requirement to provide an explanation for all items detailed in the reconciliation adequately and effectively captures or enhances the applicable information needed for the readers of the financial statement. If FASB

determines to keep the proposed requirement in ASC 740-10-50-12, clarification is needed to understand its application and the distinction between this requirement and that of ASC 740-10-50-14.

ACLI welcomes the Board's consideration of our views on this matter. Please contact us if you have any questions or comments.

Sincerely,



Regina Rose, Senior Vice President
Taxes and Retirement Security



Mike Monahan, Senior Director
Accounting Policy