



1200 G Street, N.W., Suite 300
Washington, D.C. 20005-3814
202.638.5601
tei.org

2018–2019 OFFICERS

JAMES P. SILVESTRI
President
PCS Wireless
Florham Park, NJ

KATRINA H. WELCH
Sr. Vice President
Texas Instruments Incorporated
Dallas, TX

JAMES A. KENNEDY
Secretary
OppenheimerFunds, Inc.
Denver, CO

MITCHELL S. TRAGER
Treasurer
Georgia-Pacific LLC
Atlanta, GA

BRIAN MUSTARD
Vice President, Region I
BCE, Inc.
Montreal, QC

KIMBERLY M. PEPE
Vice President, Region II
Lighthouse Management Services, LLC
New York, NY

GREGORY STAY
Vice President, Region III
Ahold USA, Inc.
Quincy, MA

EVAN G. ERNEST
Vice President, Region IV
Toll Brothers, Inc.
Horsham, PA

CRAIG SCHMIDTGESLING
Vice President, Region V
Givaudan Flavors Corporation
Cincinnati, OH

JOHN A. MANN
Vice President, Region VI
Abbott Laboratories
Abbott Park, IL

KRISTINE M. ROGERS
Vice President, Region VII
Love's Travel Stops & Country Stores, Inc.
Oklahoma City, OK

DINA ARMSTRONG
Vice President, Region VIII
Swedish Match North America Inc.
Richmond, VA

JENNIFER K. BOWERS
Vice President, Region IX
Fortive Corporation
Everett, WA

LINDA S. KIM
Vice President, Region X
The Wonderful Company
Los Angeles, CA

ANNA THEEUWES
Vice President, Region XI
Shell International B.V.
Netherlands

ELI J. DICKER
Executive Director

W. PATRICK EVANS
Chief Tax Counsel

May 31, 2019

Via Online Submission

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2019-500

Dear Mr. Kuhaneck

Tax Executives Institute (“TEI” or the “Institute”) is pleased to provide comments on FASB Exposure Draft, Proposed Accounting Standards Update (Revised)—*Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, which was issued on March 25, 2019 (the “2019 Update”). The 2019 Update revises an exposure draft issued July 26, 2016, addressing the same subject matter (the “2016 Update”). The 2016 Update attracted extensive stakeholder feedback, including comments submitted by TEI on December 12, 2016 (“TEI’s 2016 Comments”). The FASB deliberated this feedback throughout early 2017, but suspended further work on the project in light of progress being made with comprehensive U.S. tax reform legislation in the U.S. Congress. This decision proved to be correct as tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cut and Jobs Act or “TCJA,” fundamentally changed the taxation of U.S. business enterprises with foreign operations and made other significant amendments to the tax code.

The 2019 Update reflects revisions the FASB made after considering stakeholder comments on the 2016 Update, the effects of the TCJA on proposals made in the 2016 Update, and stakeholder feedback received after the TCJA was enacted. We commend the FASB for its thoughtful approach to proposing updates in this particularly complex area of financial reporting. The FASB was and remains cognizant of the need to

Connect. Engage. Impact.



Connect. Engage. Impact.

identify a narrower set of disclosures, taking into consideration, among other things, the usefulness of the information disclosed and whether the expected benefit of the disclosure justifies the added administrative cost and burden. As a professional association of in-house tax executives, TEI offers a unique perspective and is particularly well-suited to provide comments on the 2019 Update.

TEI Background

TEI is the preeminent association of in-house tax professionals worldwide. Our approximately 7,000 members represent more than 2,800 of the leading corporations in North and South America, Europe, and Asia. TEI membership is exclusive to individuals employed by corporations and other for-profit business enterprises in a tax-related function. Its members are dedicated to developing and effectively implementing sound tax policy, promoting the uniform and equitable enforcement of the tax laws, and reducing the cost and burden of tax administration and compliance to the benefit of taxpayers and governments alike.

TEI offers a unique perspective, especially in regard to the financial accounting for income taxes. Its members work for companies involved in a wide variety of industries, and thus, their collective perspectives are broad-based and not tied to any particular special interest group. Further, TEI members are responsible for both the tax affairs of their employers and the reporting of tax information in their employers' financial statements. Thus, they are well-versed in the complexities of the tax laws, as well as the financial accounting rules. We believe the diversity, background, and professional training of TEI's members place us in a uniquely qualified position from which to comment on the FASB's proposed accounting standards updates. Along with the government and the investing public, our members have the most at stake in trying to craft a financial reporting system that fairly presents the results of company operations and is as transparent, administrable and cost-effective as possible.

General Views on the 2019 Update

Accounting standards for income taxes are complex. In many instances, the accounting complexity is an inevitable byproduct of complexities in the tax law. Reviewing these standards is an important and expected role of the FASB, and we appreciate the FASB's efforts, in particular, its focus on ensuring financial statement disclosures are clear and usable and the benefits of providing the disclosures justify the costs. Ideally, the proposed updates will minimize deviations in the interpretation of the guidance, which, in practice, should be consistently applied by all organizations across a wide variety of industries.

The FASB has recognized the "objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions." 2019 Update at 21, para. BC6. TEI members agree with this view and are in favor of updates to Topic 740 that increase the usefulness



Connect. Engage. Impact.

of income tax disclosures in line with these objectives when the benefits justify the costs. We respectfully request that the FASB, when deliberating this and future updates, consider not only how disclosed tax information may be used to improve financial decision-making, but also how it can be misused.

Comments on Specific Proposals

In the following paragraphs, we provide comments on the main provisions in the 2019 Update, following the Questions for Respondents provided on pages 3-5 of the 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.

Additional Carryforward Disclosures under Proposed ASC 740-10-50-6A

Proposed ASC 740-10-50-6A would require public business entities to disclose detailed data concerning deferred tax assets for federal, state, and foreign carryforwards. See 2019 Update at 9. The proposed disclosure would increase the existing income tax footnote disclosures by requiring a new table detailing the following:

- tax-affected amounts of federal, state, and foreign carryforwards by time period of expiration for each of the first five years after the reporting date,
- a total for any remaining years,
- a total for carryforwards that do not expire,
- the total amount of unrecognized tax benefits that offsets the deferred tax asset attributable to carryforwards in accordance with ASC 740-10-45-10A, and
- the amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards.

Unlike the corresponding proposal made in the 2016 Update, proposed ASC 740-10-50-6A does not require disclosure of carryover information on a pretax basis. We applaud the FASB for this change and agree with the reasoning set forth in the 2019 Update in support of it. See 2019 Update at 37, para. BC73. We do not believe the disclosure should be different for nonpublic business entities.

The carryforward information public business entities would be required to disclose under proposed ASC 740-10-50-6A is generally available. Nevertheless, we question the usefulness of the proposed disclosure. The disclosure would add more detailed data to an already complex and voluminous footnote disclosure. The added detail would have questionable utility because, for example, it would be difficult for readers to quantify the amounts that are in jeopardy of expiration given the various



Connect. Engage. Impact.

factors involved in a valuation allowance assessment. In addition, even when an entity has a full valuation allowance, taxable temporary differences may provide a source of realization of deferred tax assets. Identifying the portion of the valuation allowance related solely to carryforwards (rather than all deferred tax assets) would require detailed and complex scheduling of reversals of taxable temporary differences to allocate the valuation allowance between carryforwards and other deferred tax assets. When the public business entity is in a partial valuation allowance situation, determining the valuation allowance for carryforwards would be even more challenging. The proposed disclosure would also introduce an element of redundancy. Specifically, the identification of the total unrecognized tax benefits that offset the deferred tax assets for carryforwards is redundant to the proposed disclosure of amounts and relevant line items in the statement of financial position in which the unrecognized tax benefits are presented.

On balance, we do not believe the limited value of the added information justifies the additional costs and effort required to determine the amount of valuation allowance and unrecognized tax benefits attributable to carryforwards and the amount related to other deferred tax assets. Accordingly, we request that the FASB eliminate the proposed disclosure from the 2019 Update.

Additional Valuation Allowance Disclosures under Proposed ASC 740-10-50-6B

The 2019 Update would require a public business entity to disclose the total amounts of valuation allowance recognized and released during the reporting period, with an explanation of each. TEI addressed this proposed amendment in its 2016 comment letter as follows:

Under existing ASC 740-10-50-2, an entity is required to disclose the total valuation allowance recognized for deferred tax assets determined in paragraph 740-10-30-5(e). Given the linkage of the valuation allowance to the statement of financial position, investors may readily determine the change in valuation allowance without the need for any additional disclosure.

Evaluating the need for and amount of a valuation allowance for deferred tax assets requires significant judgment and extensive analysis of all the positive and negative evidence available to determine whether all or some portion of the deferred tax assets will not be realized. For this reason, we believe any explanation would be lengthy and potentially confusing to investors. The costs of compliance, complexity, and high potential for misinterpretation outweigh the benefits this disclosure may provide to financial statement users. Accordingly, we urge the FASB not to adopt this proposed addition.

TEI's 2016 Comments at 7. Our views on the matter remain unchanged, and we again urge the FASB not to adopt this proposed amendment.



Connect. Engage. Impact.

Proposed Changes to Tax Rate Reconciliations under Proposed ASC 740-10-50-12

The 2019 Update would modify the existing rate reconciliation requirement for public business entities under ASC 740-10-50-12 to partially align with U.S. Securities and Exchange Commission (“SEC”) Regulation S-X (“Reg. S-X”), 17 C.F.R. §210.4-08(h), which 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. The proposed amendment departs from Reg. S-X by requiring public business entities to disclose an “explanation of the year-to-year change in an amount or percentage of a reconciling item.” 2019 Update at 11. The FASB recommended this change because the added “disclosure would be meaningful to users and would not be costly because preparers should know why those reconciling items change if the change is significant.” 2019 Update at 40, para. BC84.

We do not believe the proposed explanation of year-to-year change is necessary and request that it be withdrawn because SEC Regulation S-K already requires explanation of year-to-year changes that are significant. In this regard, item 303(a)(3) of SEC Regulation S-K, 17 C.F.R. §229.303 (“Reg. S-K 303”), provides:

Registrants should consider discussing and analyzing the tax implications related to material transactions, trends and other important items impacting their business as disclosed elsewhere in MD&A. A discussion of the nature and impact of significant tax rate reconciling items should also be considered. For example, discuss the tax rate reconciling item resulting from a change in assumptions related to an unrecognized tax benefit or a different final resolution related to the unrecognized benefit. Similarly, when uncertain tax positions are a critical accounting policy, MD&A should address why the assumptions were changed or why the actual resolution differed from management's assumption.

Therefore, any significant variances from period to period would already be disclosed in the MD&A and requiring an additional footnote disclosure under ASC 740-10-50-12 would result in duplicative disclosures. Further, any discussion of a variance between periods would focus on tax laws and the underlying criteria and rates used to derive the amounts in each period. We question the decision-usefulness of such information to users and, on balance, believe the proposed discussion of variance between periods would depart from the overarching theme in footnote disclosures concerning the convergence of detail, materiality, and disclosure objectives. Guidance provided in the new leasing standard, ASC 842-20-50-2, is particularly on point and similar principles should apply to disclosures under Topic 740:

A lessee shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee shall aggregate or disaggregate disclosures so that useful information is



Connect. Engage. Impact.

not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

Requiring companies to explain period-to-period variances in each of the rate reconciliation line items would duplicate requirements for disclosure in the MD&A, be inconsistent with disclosure objectives in other reporting areas, and obscure decision-useful information by including a large amount of insignificant detail within already voluminous tax disclosures. For these reasons, we believe this aspect of the proposed revisions to ASC 740-10-50-12 should be eliminated.

Proposed Elimination of the Unrecognized Tax Benefit Related Disclosure in ASC 740-10-50-15(d)

We applaud the FASB's effort to simplify the financial statements by proposing to remove the unrecognized tax benefit related disclosure currently in ASC 740-10-50-15(d). The proposed revision does not result in the elimination of decision-useful information about income taxes, but rather removes a forward-looking and inherently subjective disclosure in line with the FASB's conceptual guidance on future-oriented information and the risks that disclosing such information poses to issuers of financial statements. See Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting, Chapter 8, Notes to Financial Statements (August 2018) ("Concepts Statement 8") at D34. We agree with this proposed elimination.

Additional Disclosure of Disaggregated Income Taxes Paid under Proposed ASC 740-10-50-22

ASC 230-10-50-2 currently requires companies to disclose total income taxes paid during the period. If adopted, proposed ASC 740-10-50-22 would significantly expand this disclosure, requiring income taxes paid to be disaggregated between federal, state, and foreign.¹ TEI opposes the additional disclosures because the costs and potential issues relating to them far outweigh any possible benefit that would inure to users of financial statements.

Disclosure of disaggregated income taxes paid, over and above disclosure of total income taxes paid and income tax expense, would not provide investors greater ability to predict future cash flows because tax payments are driven by a number of factors related to differences between the timing of tax accrual and payment (*e.g.*, estimated tax payment requirements, which can result in cash taxes for a given year being paid in a subsequent tax year; tax audit settlement payments and refunds; tax withholding; timing differences; and tax attribute utilization). Further, income taxes are exceedingly complex and additional disclosures would be required to explain the disaggregated tax amounts. The existing requirements to disclose current tax expense for federal, state, and foreign provide investors with similar information without some of the distortive effects of the above mentioned items.

¹ We recognize and strongly support the FASB's well-reasoned decision not to propose disclosure of income taxes paid at a country level. See 2019 Update at 25-26.



Connect. Engage. Impact.

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

We believe business entities are likely to have the systems, processes, and controls in place to capture the data required to comply with many of the proposed amendments, particularly those that would be consistent with existing SEC disclosure requirements. We are concerned, however, about the operability and auditability of certain of the proposed amendments as noted throughout this comment letter.

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

The proposed disclosures should not result in significant incremental costs to the extent they align with comparable SEC regulations. We expect most incremental costs to be incurred in the initial implementation, and the majority of such costs would likely involve internal and external resources needed to design, test, and implement accounting and related system changes or modifications to facilitate the collection and reporting of data consistent with the disclosure requirements. Additional internal and external costs may be incurred to identify, analyze, and audit comparative data for prior reporting periods presented. Other additional costs may be incurred to re-design and test internal controls. The most pressing concern to TEI members is the time that would be required to implement modifications to existing systems. Thus, the effective date of the revised standard should allow sufficient time for companies not only to address required systems modifications, but also to collect, quantify, and validate the data needed to restate prior-period comparable information. We address this point in our response to Question 11, below.

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?

The earnings-before-tax disclosure under proposed ASC 740-10-50-10A is intended to facilitate an explanation of income tax expense to the extent it is impacted by differences in the tax burden by jurisdiction. Under existing accounting standards, companies apply judgment in defining their foreign operations when disclosing pretax income and income tax expense from foreign operations. This has resulted in the diversity in practice the FASB is attempting to reduce through its proposal.

We do not believe the proposed amendment requiring disaggregation before intra-entity eliminations would result in more effective, decision-useful information about income taxes. Generally, the basis for income tax expense and related income taxes paid is the tax rates and tax rules in which each



Connect. Engage. Impact.

subsidiary is subject to taxation, applied to the subsidiary's pretax income (or loss) after intercompany transactions which is generally the pre-tax amount utilized in the preparation of an entity's income tax return. The FASB acknowledges this point in the 2019 Update. See 2019 Update at 24, para. BC21 ("The Board noted that an entity is taxed in a foreign jurisdiction on the basis of the entity's income in that jurisdiction, which would include any intra-entity transactions.").

ASC 810-10-45-1 requires elimination of intra-entity balances and transactions in the preparation of consolidated financial statements. The standard requires elimination of "intra-entity open account balances, security holdings, sales and purchases, interest, dividends, and so forth." *Id.* It provides further, "[a]s consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity, such statements shall not include gain or loss on transactions among the entities in the consolidated group." *Id.* Because of this requirement, many public business entities base their Reg. S-X income tax disclosure on pretax income after intra-entity eliminations.

We do not believe a single, prescribed basis for disclosure necessarily provides the most useful information about income taxes in all situations. Rather, disclosure of pretax income would be most beneficial to a user if an entity could select and disclose the basis of presentation (*i.e.*, before or after intra-entity eliminations) that best achieves the overall objective of providing decision-useful information about income taxes.

For companies that currently disclose pretax income after intra-entity eliminations, the proposed amendment would present operability challenges and would be difficult and costly to implement. If intercompany transactions are not easily identifiable within the accounting systems and cannot be efficiently validated, quantified, and reversed within the time period necessary to meet internal company deadlines for the annual financial statements and SEC Form 10-K, significant accounting systems changes would likely be necessary to capture the information. This burden is greater for companies that utilize multiple accounting systems, maintain complex supply chains, or otherwise have numerous intercompany transactions.

In addition, we are concerned with the complexity in applying "before intra-entity eliminations," as well as the potential diversity in practice and interpretation across a myriad of income tax intra-entity transactions. For example, in a business combination where acquisition accounting adjustments are not pushed down to relevant legal entity levels within separate jurisdictions (following the accounting policy election provided in ASC 805-50-25-8), the elimination adjustments are also not pushed down. Another common example concerns the different methods companies use to consolidate ledgers and record transactions. These variances cause diversity in practice in disclosing pre-tax income beyond intercompany transactions. For example, purchase accounting adjustments, such as purchased intangibles, goodwill, and other fair value adjustments, are recorded by some companies in a separate or consolidating ledger, while others include such adjustments at the target company level. Another notable example exists in situations where subsidiary-level books and records are recorded based on



Connect. Engage. Impact.

local accounting practice and U.S. GAAP adjustments are recorded on a consolidation ledger (*e.g.*, U.S. GAAP adjustments for revenue recognition, contingency accruals, and capital leases).

Intra-entity dividends are another example of a significant item that would limit the usefulness of disclosure of pre-tax income before intra-entity eliminations. After the TCJA, it is expected that more multinational companies will pay dividends to their ultimate parent company. In the case of a U.S. multinational, a single dividend could be counted multiple times in both the U.S. and foreign pre-tax income before eliminations depending on the number and location of entities in the ownership chain. Meanwhile, the dividend income is unlikely to significantly impact current year income tax expense. It is also important to consider that before signing off on the proposed disclosure, independent auditors would be required to audit the correctness of the amounts, the completeness of the intercompany transactions included in the disclosure, and the appropriate jurisdiction (domestic or foreign) of the transactions. The proposed disclosure would likely present significant implementation costs associated with creating the means to capture all intercompany transactions within the accounting systems, as well as ongoing compliance burdens associated with the collection, testing, and audit of the data utilized for the disclosure.

For the reasons set forth above, we urge the FASB not to specify whether the disclosed amounts should be before or after intra-entity eliminations, but rather to leave that determination to the judgement and practice of the reporting company coupled with a disclosure of the selected policy approach.

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?

TEI agrees with the FASB's policy decision not to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction. Our views on this point are set forth in TEI's 2016 Comments. In short, the costs and potential issues relating to such disclosures far outweigh any possible benefit the disclosures may provide to users of financial statements.

Instead of requiring disaggregation by major tax jurisdiction, the 2019 Update proposes the following new disclosure:

Income tax expense (or benefit) from continuing operations disaggregated between federal or national, state, and foreign shall be disclosed. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile.



Connect. Engage. Impact.

Proposed ASC 740-10-50-10B, 2019 Update at 11. In our experience, internal and external accountants and auditors of publically reported companies benefit when the FASB's accounting standards align with comparable SEC regulations, and we applaud the FASB for doing so in this instance.

Reg. S-X, 17 C.F.R. 210.4-08(h)(1) provides as follows:

Disclosure shall be made in the income statement or a note thereto, of (i) the components of income (loss) before income tax expense (benefit) as either domestic or foreign; (ii) the components of income tax expense, including (A) taxes currently payable and (B) the net tax effects, as applicable, of timing differences (indicate separately the amount of the estimated tax effect of each of the various types of timing differences, such as depreciation, warranty costs, etc., where the amount of each such tax effect exceeds five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate; other differences may be combined.)

NOTE: Amounts applicable to United States Federal income taxes, to foreign income taxes and the other income taxes shall be stated separately for each major component. Amounts applicable to foreign income (loss) and amounts applicable to foreign or other income taxes which are less than five percent of the total of income before taxes or the component of tax expense, respectively, need not be separately disclosed. For purposes of this rule, foreign income (loss) is defined as income (loss) generated from a registrant's foreign operations, i.e., operations that are *located outside* of the registrant's home country. [emphasis in original]

Staff Accounting Bulletin ("SAB") 6, Interpretations of Accounting Series Releases and Financial Reporting Releases, Topic I, provides guidance on improved disclosure of income tax expense. Topic I, Question 7, specifically relates to tax expense components v. "overall" presentation and clarifies the components of income tax expense as federal, foreign, and state.

The following modifications would significantly increase the operability and auditability of the proposed revision made in ASC 740-10-50-10B, while also maintaining a closer parity between the costs and benefits of the required disclosures:

- The description of taxes to be disaggregated—*i.e.*, "federal or national, state, and foreign"—should be revised to more closely align with Reg. S-X and avoid misclassification of taxes. Specifically, we recommend the following: "federal or national, domestic states and localities, and foreign."



Connect. Engage. Impact.

- The FASB should conform the proposed disclosure to Reg. S-X by adding the “five percent” rule which operates to remove from separate disclosure foreign or other income taxes that are less than five percent of the total tax expense. This rule would allow for a simplified approach to disclosure if a specific component of tax expense was not significant compared to total tax expense. A requirement to disaggregate foreign or other income taxes falling below the five percent threshold runs afoul of the cost benefit parity the FASB is seeking to achieve in the 2019 Update.
- The proposed revision provides, “Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile.” To eliminate potential misclassification issues related to items, such as U.S. federal taxes on Global Intangible Low Taxed Income, Subpart F income, and federal benefit of state taxes, the requirement should be revised to state, “Income tax expense disclosures should be made according to the tax jurisdiction requiring payment.”

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 appreciate the FASB’s recognition that the 5 percent threshold provided in Reg. S-X was adopted when the U.S. statutory income tax rate was 35 percent and, now that the statutory rate has been lowered to 21 percent, additional items may need to be analyzed, increasing the compliance burden. Nevertheless, we believe the benefit of maintaining conformity between disclosures required under SEC rules and GAAP exceeds the benefit of adopting a higher threshold in the proposed amendments.

Questions 7 and 8: Are there any other disclosures that should be required by Topic 740 (Q7) or removed (Q8) 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.

No further disclosures should be added under Topic 740 (Q7) on the basis of the concepts in Chapter 8 of Concepts Statement 8 (Q8), as a result of the Tax Cuts and Jobs Act, or for other reasons. We suggest, however, the removal of ASC 740-30-50-2(c), which requires disclosure of the amount of unrecognized deferred tax liability associated with indefinitely reinvested earnings or a statement indicating the amount is not practicable to compute. We support the FASB’s decision to remove the existing disclosure required by ASC 740-30-50-2(b) of the cumulative amount of indefinitely reinvested earnings due to the lack of relevance and possibility for misinterpretation after the TCJA. See 2019 Update at 19 and 28, para. BC34. Furthermore, the FASB has agreed with stakeholders that the tax consequences of the indefinite reinvestment assertion will not be significant in many cases. *Id.* at 29,



Connect. Engage. Impact.

para. BC35. For these same reasons, together with the incremental costs associated with preparing a highly complex and theoretical calculation (involving analysis of numerous local and U.S. tax laws assuming repatriation of all indefinitely reinvested earnings), we believe the disclosure in ASC 740-30-50-2(c) is no longer justified after the TCJA.

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.

TEI agrees with the change in scope by replacing the term “public entity” in Topic 740 with the term “public business entity” as defined in the Master Glossary 5 of the Codification.

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.

The 2019 Update aptly describes the costs and risks of restating prior period disclosures. *See id.* at 42, para. BC94. We agree restating past disclosures is a costly and time-consuming endeavor. Nevertheless, comparability is paramount to users of the financial statements, including disclosures in the associated notes. Anything less minimizes the FASB’s overarching goal of improving the effectiveness of tax disclosure. Accordingly, our preference is to apply the proposed amendments retrospectively and restate prior periods in the year in which the amendments become effective.

To mitigate the costs and risks that led the FASB to propose prospective application of the proposed amendments, we request at least a one-year transition period for adopting the amendments. Such a transition period would provide sufficient time for organizations to address manual or electronic systems modifications, including time to re-design and test internal controls, necessary to present comparative financial information. Further, TEI suggests those organizations with more robust and capable systems be afforded the opportunity for early retrospective adoption of the revised standard.

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 a one-year transition period is sufficient time for all organizations, including non-public business entities, to successfully implement the proposed amendments. Thus, we request that the FASB require adoption of the revised standard no sooner than the second year-end following the year the revised standard is issued. Early adoption, however, should be permitted for organizations able to meet the revised standards on a retrospective basis (*see response to Question 10, above*).



Connect. Engage. Impact.

Conclusion

TEI appreciates this opportunity to share its membership's views on the 2019 Update. These comments were prepared by TEI's Financial Reporting Committee, whose Chair is Stephen Dunphy. Patrick Evans, Chief Tax Counsel for TEI, coordinated the preparation of the comments. If you have questions about TEI's comments, please contact Mr. Dunphy at (925) 965-4277 or stephen.dunphy@ros.com or Mr. Evans at (202) 464-8351 or pevans@tei.org.

Respectfully submitted,
TAX EXECUTIVES INSTITUTE

A handwritten signature in black ink, appearing to read 'James P. Silvestri', written in a cursive style.

James P. Silvestri
International President