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September 30, 2016

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: Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes (Topic 740) (File Reference No. 2016-270)

Dear Ms. Cosper:

We are pleased to provide comments on the Board's proposal to modify the current disclosure requirements for income taxes.

We support the Board's intent to improve the effectiveness of income tax footnote disclosures while minimizing costs and complexities. The proposed ASU will provide incremental improvements, but will also remove the critical "early warning" FIN 48 disclosure which we do not support.

In addition, we recommend that to the extent the FASB codifies SEC guidance for public and private companies in the Accounting Standards Codification, it should work with the SEC staff to avoid duplication, which is consistent with the objectives of the SEC's current disclosure effectiveness initiative. We also believe certain clarifications will be necessary in the final amendments, as elaborated in the Appendix to this letter.

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

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Would the proposed amendments 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 agree that the proposed amendments would result in more effective, decision-useful information about income taxes.

We support the notion that relevant income tax information should be disclosed in the tax footnote and this proposal would help in this regard. We also support codifying (in Topic 740) SEC income tax disclosures that have been found to be effective and useful. However, we recommend that, to the extent the FASB codifies existing SEC disclosure requirements in the ASC as discussed below, it also work with the SEC staff to eliminate the comparable SEC requirement in order to prevent duplication for public companies.

However, we disagree with one of the proposed changes. Specifically, we do not support removing the "early warning" disclosure requirement in paragraph 740-10-50-15d related to unrecognized tax benefits. We believe that removing this disclosure requirement would eliminate decision-useful information. This disclosure is critical because of the highly judgmental nature of unrecognized tax benefits; its inclusion mitigates risk to both the reporting entity and its audit firm. We also believe that this requirement is consistent with the general "early warning" disclosure requirement under paragraph 275-10-50-8, and thus should be retained. We also considered the Board's view that achieving the objective of improving the effectiveness of the notes includes allowing reporting entities the appropriate exercise of discretion on disclosures. The FIN 48 disclosure requirement in 740-10-50-15d is arguably consistent with this objective by allowing management to determine whether a significant change in a FIN 48 liability is reasonably possible and should be disclosed.

Our views concerning the remaining individual proposals are explained below.

We support replacing the term "public entity" with the term "public business entity" throughout Topic 740 in accordance with ASU 2013-12. While we support having consistent definitions in US GAAP including all PCC alternatives[1], we are uncertain that this change will not impact a significant number of entities and thus have to rely on the FASB's basis for conclusion (i.e., BC15). We recommend additional research by the FASB staff to gauge the potential impact. For instance, certain non-publicly traded community banks and insurance companies may qualify as "public business entities," resulting in some incremental disclosures, although we understand similar disclosures would be required by other regulators, such as the FDIC.

We agree that all entities should be required to provide qualitative disclosures, as required by proposed par.740-10-50-22, when a tax law has been enacted in the current period that is probable to have an effect on the reporting entity in a future period. This disclosure would assist users in assessing changes in tax laws that would have an effect on future cash flows (i.e., tax expense or benefit in future periods). This proposal expands the current requirement in ASC 740-10-50-9(g) to disclose, in the financial statements or notes thereto, the significant components of income tax

[1] The PCC alternatives or ASUs 2014-02, 2014-03, 2014-07, 2014-18, and 2016-03 are all based on the public vs. private definition in ASU 2013-12.

expense related to continuing operations, which might include adjustments to deferred tax liabilities or assets for enacted changes in tax laws.

We agree with proposed par. 740-30-50-3 that all entities should be required to disclose the amount of, and an explanation for, any change (increases and decreases) in assertion about the temporary difference for the cumulative amount of investments associated with undistributed foreign earnings that are no longer asserted to be essentially permanent in duration. This disclosure would assist users in assessing potential future tax impacts of indefinitely reinvested foreign earnings because it expands existing disclosure requirements in paragraph 740-30-50-2(b) to disclose the cumulative amount of the temporary difference related to investments in foreign subsidiaries by focusing on the changes (increases and decreases) in the cumulative temporary difference. However, the FASB should clarify in the final ASU that (1) the disclosure also includes the tax effect of the change, and (2) whether an increase (in indefinitely reinvested foreign earnings) due to current period earnings is also within the scope of the new disclosure. We believe both items are useful and relevant pieces of information that should be scoped in, consistent with the overall disclosure effectiveness objective.

We agree that all entities should be required to disclose the aggregate of cash, cash equivalents, and marketable securities held by all foreign subsidiaries (proposed par. 740-10-50-24). We believe this disclosure will respond to user requests for more information about indefinitely reinvested accumulated foreign earnings. There is currently no footnote disclosure that would allow users to understand the amount of foreign liquid assets as of the balance sheet date that could potentially be used for distribution of accumulated foreign income. This proposal provides users with an additional data point.

We agree that all entities should be required to disclose:

- income before taxes disaggregated between domestic and foreign earnings (current SEC disclosure) (proposed par. 740-10-50-10A),
- income tax expense disaggregated between domestic and foreign (current SEC disclosure) (proposed par. 740-10-50-10B), and
- income tax paid disaggregated between foreign and domestic and by country where taxes paid are significant in relation to total cash taxes paid (proposed par. 740-10-50-25).

Two proposals effectively codify current SEC disclosure rules and would not be new to public entities which already furnish this disclosure in their public filings.

The proposed requirements to disclose domestic income tax paid separately from foreign income tax paid and foreign income tax paid by significant country appropriately respond to user requests for more information about foreign earnings and the tax effect of those earnings. These requirements would expand disclosure of income tax paid during the reporting period presented as a separate class of operating cash flow in the statement of cash flows (ASC 230-10-45-25(f)) or disclosed under the "indirect method" (ASC 230-10-50-2). However, we recommend that the FASB clarify proposed par. 740-10-50-25 to also include a reference to cash tax presented under the direct method (ASC 230-10-45-25(f)).

Also, ideally the proposal should have included disclosure of the pretax income by significant country to give users the information they need to understand where foreign income is earned and the cash tax paid on such foreign income. While cash tax paid might be used as a proxy for gauging per-country earnings, cash tax paid during a particular fiscal year might be disproportionately higher or lower than the associated pretax income due to book-to-tax timing differences. Therefore, we

recommend that the Board reconsider requiring disclosure of pretax income by significant jurisdictions.

We agree that all entities should be required to disclose the amounts of federal, state, and foreign operating loss and tax credit carryforwards on the tax return (proposed par. 740-10-50-6A(a) for public business entities and proposed par. 740-10-50-8A for all other entities).

We also agree with the public business entity requirement to disaggregate these values by expiration date and by three key jurisdictions (i.e., federal, states, foreign) and also disclose the deferred tax assets (DTA) for carryforwards (tax affected) before uncertain tax benefits (UTB) and valuation allowance (proposed par. 740-10-50-6A(b)). The Board might also consider requiring a similar private entity disclosure by three key jurisdictions of the DTAs for carryforwards, i.e., providing tax-affected information about carryforwards.

We support disclosing the aggregated (all jurisdictions) UTB liabilities related to tax attributes carryforwards as this information is not available under current disclosures (proposed par. 740-10-50-6A(c)). An income tax carryforward DTA is presented in the component of deferred taxes disclosure net of the UTB liability that is required to reduce the income tax carryforward DTA (740-10-50-2). The proposed UTB/carryforward disclosure would provide "gross" presentation of income tax attributes before any UTB liability and valuation allowance.

A tabular disclosure format as included in proposed revised par. 740-10-55-220 (Ex. 31) will make it easier for users to understand the magnitude of income tax attributes by the major jurisdictions (i.e., federal, state and foreign) which are commonly used to present income tax information and the potential risk from expiration and exposure to uncertain tax positions.

We agree with proposed par. 740-10-50-23 that all entities should be required to disclose the existence and nature (duration, commitments, tax benefits) of a government agreement with the entity that has reduced, or may reduce, the entity's income tax burden. We support the scope of this disclosure i.e., tax benefits that have been obtained from a government through negotiation and agreement and that would not be available otherwise (e.g., preferential tax rates, reduced tax rate, tax holiday, tax exemption and more). While we think the words are clear, to avoid doubt the FASB might want to clarify that private letter rulings on the tax treatment of a particular transaction would not be in scope of this proposed disclosure (e.g., a private ruling on the tax treatment of an asset disposal transaction). Additionally, we note that SEC rules currently require a public entity to disclose the existence of a tax holiday in a foreign jurisdiction including the aggregate benefit and other information such as termination date (SAB Topic 11C). We believe that the FASB would benefit from codifying (within proposed par. 740-10-50-23) any incremental requirements of SAB Topic 11C for public business entities. This will help eliminate duplicative guidance and eliminate SAB Topic 11C. However, the FASB should clarify its decision to eliminate subparagraph "d" in par. 740-10-50-9 which requires disclosure of significant components of income tax attributable to continuing operations. Subparagraph "d" refers to "government grants recognized as a reduction of income tax expense." We believe this is a useful disclosure reference to many forms of investment tax credits that can be recognized as reduction of income taxes or "deferred" and recognized through pretax income, consistent with par(s) 740-10-25-45 through 10-46. We think this reference is useful and should be retained.

We agree with the proposed changes to disclosures about uncertain tax benefits applicable to public business entities, with one exception (revised par(s) 740-10-50-15 through 50-15A).

We believe that in practice some entities already separate cash settlements from settlements using tax carryforwards in their FIN 48 tabular disclosure and thus the proposed revised par. 740-10-50-15A(3) would be a welcome clarification. However, we do not understand why the FASB is proposing to delete "tabular" from the first sentence in 740-10-50-15A(a) and believe keeping "tabular" is helpful and consistent with how the FIN 48 disclosure format is described.

We also support the proposed change in par. 740-10-50-15A(c) to disclose the balance sheet line items impacted by FIN 48 liability and related amounts. However, the FASB should clarify the 2nd sentence in proposed par. 740-10-50-15A(c) which states that the unrecognized tax benefits that are not presented in the statement of financial position should be disclosed separately. We believe it is in reference to UTB liabilities that offset deferred tax assets for tax carryforwards that are available (and for which management intends) to offset the liability on settlement as required by par. 740-10-45-10A (ASU 2013-11) but could also be a UTB liability that reduces a deferred tax asset carryforward that is not considered more likely than not sustainable. We believe such clarification would help stakeholders understand why these unrecognized tax liabilities are not presented in the balance sheet. The proposed par. 740-10-55-217 which illustrates the proposed disclosure should also be clarified for consistency (the line which describes "unrecognized tax benefits not presented on the statement of financial position").

We agree with the proposed change to disclosures about the rate reconciliation applicable to public business entities (proposed par. 740-10-50-12), as it effectively codifies the SEC guidance in Rule 4-08(h)(2) of Regulation S-X. However, the FASB should clarify the purpose of the word "normally" to explain whether there are circumstances when the tax rate of the entity's country of domicile should not be the statutory rate used in the rate reconciliation. Also, the FASB should clarify whether there is a difference between "entity's country of domicile" which is used in proposed par. 740-10-50-12 (rate rec) and "entity's home country" which is used in proposed par.740-1050-1B (foreign income tax). We believe that "home country" and "country of domicile" should be the same and therefore recommend that only one term be used (we prefer "country of domicile"). If the Board intends these two words to mean something different, we suggest that both phrases be defined in the glossary definitions section of Topic 740.

We agree that it would be beneficial for public business entities to disclose an explanation of the nature and amounts of the valuation allowance recorded and released during the reporting period. While this information is already required to be disclosed by public business entities within Schedule II by Rule 12-09 of Regulation S-X if the information is not otherwise provided within the financial statements, we believe including this information within the income tax footnote, rather than in a separate schedule, would be an improvement. We also recommend that the SEC remove the valuation allowance requirement from Schedule II when the disclosure is codified. Additionally, we believe it would be useful for companies to disaggregate the increases and decreases in the valuation allowance by jurisdiction (i.e., federal, state and foreign).

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

We believe the proposed disclosure requirements are generally operable and auditable because the information required already exists within most accounting systems.

We also recommend that the FASB clarify how the disclosure requirement in par. 740-10-50-15(e) related to a description of tax years that remain subject to examination by major tax jurisdictions be applied when considering the proposed materially disclosure threshold in proposed par. 740-10-

50-1. While we have previously expressed reservations about the Board's proposal to explicitly require a materiality assessment for individual disclosure requirements, we believe the disclosure requirement in par. 740-10-50-15(e) is important to assess potential exposure to tax audit risk. As such, we agree with this disclosure requirement, regardless of whether the Board incorporates a disclosure materiality threshold.

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

Similar to our response to question 2, we do not expect significant incremental cost would be required to provide the proposed disclosures.

Question 4: The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?

We generally agree that requiring disclosure of cash paid by significant jurisdiction would provide decision-useful information. We also believe that disclosure of income from continuing operations and tax expense by significant foreign jurisdiction would provide beneficial information, should the FASB decide to implement such a requirement. Providing cash tax paid by significant jurisdiction might not be as useful absent the related pretax income.

We do not believe any additional country-specific disclosures (which have not been contemplated as part of this project) should be required, except when disclosure of a government assistance tax benefit is required under this new proposal (i.e., the disclosure would need to indicate the foreign country where the government assistance tax benefit is obtained).

Question 5: The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27–BC40 of this proposed Update). Is there other information that the Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?

We do not believe any additional disclosures about indefinitely reinvested foreign earnings (which have not been contemplated as part of this project) should be required, with one exception. The current "practical exception" (regarding inability to estimate the unrecognized deferred tax liability) statement in par. 740-30-50-2c is problematic and has led to comment letters from the SEC staff. Therefore, we recommend the FASB consider adding a requirement to provide narrative explanation as to the reason estimating the unrecognized deferred tax liability is not practical. This addition to par. 740-30-50-2c would potentially avert future comment letters for public entities and provide stakeholders with reasonable, transparent, and entity-specific information about the challenge and complexity of estimating the unrecognized liability related to indefinitely reinvested foreign earnings. This change would also provide consistency with other ASC Topics requiring disclosure as to impracticality of certain information.

Question 6: The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.

We agree with the FASB's disclosure exceptions made to private company financial statements, with one exception. We believe that disclosing the deferred tax assets associated with the total amounts of federal, state, and foreign carryforwards would be useful and beneficial information for stakeholders of private company financial statements. Without this information, it would be difficult for a reader to determine the tax affected monetary value of income tax carryforwards before any UTB liability and valuation allowance. We believe this is important information that is readily available and should be disclosed.

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

The FASB could clarify the purpose of proposed par. 740-10-50-1A by adding implementation guidance under subtopic 740-10-55 to provide context and examples of how to apply the proposed income tax disclosure "principles" to determine appropriate disclosures.

Question 8: Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We do not believe any other disclosure requirements should be removed.

Question 9: 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 support comparative disclosures whenever possible, but we acknowledge that costs of restating prior period disclosures may outweigh benefits for some companies. Thus, we suggest the Board allow preparers to adopt the final guidance either retrospectively or prospectively. If an entity elects to adopt the guidance prospectively, it should disclose the resulting lack of comparability.

Question 10: 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? If the answer is "yes" to either question, please explain why.

We believe one year would provide sufficient time for public business entities to implement the changes proposed in this exposure draft. We also recommend a delayed effective date for other entities; that is, the effective date for those entities should be one year following the effective date for public entities, consistent with transition provisions in other new ASUs.

We also would not object to permitting early adoption. For example, some entities may have the relevant information readily available and decide to provide the new disclosures as soon as is practicable.

We note that the proposed revision to paragraph 740-10-50-1 refers to proposed amendments to Topic 235 which have been proposed but not yet finalized. Because of this reliance on certain concepts in Topic 235 (as proposed), we suggest the final amendments to Topic 740 not become effective prior to the effective date of the proposed amendments to Topic 235.