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

Re: File Reference No. 2016-270

I appreciate the opportunity to comment on the FASB’s recent exposure draft related to changes to disclosure requirements for income taxes:


I am supportive of the Board’s disclosure framework project and its objective and primary focus to improve the effectiveness of disclosures required by generally accepted accounting principles (GAAP) in the notes to financial statements by facilitating clear communication of the information that is most important to financial statement users.

Overall, I am supportive of the additional disclosures required by the proposed ASU, recognizing that many are already required by existing SEC disclosure requirements. However, I believe that two specific proposed disclosures should be revised or significantly expanded:

1. The circumstances causing changes in the assertion related to the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of earnings impacted
Under existing GAAP\textsuperscript{1}, it is presumed that all undistributed earnings of a foreign subsidiary will ultimately be remitted to the United States and that earnings included in consolidated income are accounted for as a temporary difference. This presumption can be overcome and no deferred tax liabilities or expense recorded if “sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely... .” The parent entity must have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrate that remittance of the earnings will be postponed indefinitely\textsuperscript{ii}. Preparers of financial statements should be required to disclose the details of specific plans for reinvestment beginning in the period when the decision is made not to record deferred tax liabilities relating to the undistributed earnings. In addition to providing users with relevant information regarding plans for use of earnings on a timely basis, transparency would provide a basis upon which to evaluate management’s previous representations if (when) the indefinite reinvestment assertion is later changed, including under circumstances relating to a government incentive through reduced tax rates. Further, the cost of disclosure is minimal as management is already required to prepare and maintain specific plans for reinvestment outside of the United States.

2. The aggregate balance of cash, cash equivalents, and marketable securities held by foreign subsidiaries

Current GAAP requires that the amount of unrecognized deferred tax liability for the temporary differences related to earnings that are indefinitely reinvested either be disclosed or a statement be made that the determination of such liability is not practicable\textsuperscript{iii}. This “Practicability Exception” has been used so often and consistently since its creation in 1972 that it has become a boilerplate, unchallenged disclosure. The Practicability Exception should be removed.

In the basis for conclusions section of the proposed ASU, it is acknowledged that users of financial statements believe that removal of the Practicability Exception would be the most beneficial change for analysis of undistributed earnings.\textsuperscript{iv} The primary objections to the disclosure of the amount of unrecognized deferred tax liability appear to relate to cost and complexity, including “because it is difficult to identify the source country of the earnings”.\textsuperscript{v} There doesn’t seem to be a complex issue with sourcing earnings, for example, in Ireland. The calculation does require complex estimates to be made, entirely consistent with other significant
estimates now required in modern financial reporting. Consider, for example, numerous fair value disclosures and the FASB’s newly issued standard requiring the use of the Current Expected Credit Loss Model (CECL) to estimate, and record, estimated losses over the life of a loan at inception. Disclosure of the significant assumptions themselves would be clear communication of information relevant to financial statement users. Based on review of certain public filings, the basis for the proposed disclosure of foreign subsidiary cash, cash equivalents and marketable securities balances as a surrogate for the estimate of deferred tax liability appears to be a preparer-driven compromise consisting of disclosures already being made by some large preparers. This approach falls short of the goals of the FASB’s project.

I would be pleased to discuss my comments further.

Sincerely,

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1 ASC 740-30-25-3
2 ASC 740-30-25-17
3 ASC 740-30-50-2(c)
4 Paragraph BC 29
5 Paragraph BC 33