
Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Balance Sheet Classification of Deferred Taxes* (the Proposed Standard), from the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective in its simplification initiative to reduce the cost and complexity of financial reporting while improving or maintaining the usefulness of the information provided to financial statement users. We believe that the Proposed Standard's elimination of the requirement for an entity to classify deferred tax assets and liabilities as current or noncurrent meets that objective.

We believe the Proposed Standard would reduce costs and complexity because entities would no longer be required to classify deferred tax assets and liabilities or any related valuation allowance. We also believe that the Proposed Standard would not significantly affect the quality of information provided to financial statement users.

Our responses to the questions posed in the Proposed Standard are set out in Appendix A of this letter, and other general comments on the Proposed Standard are included in Appendix B.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst & Young LLP

Ms. Susan M. Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  

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Appendix A – Responses to questions raised in the Proposed Accounting Standards Update, Balance Sheet Classification of Deferred Taxes

Question 1: Should all deferred income tax liabilities and assets be presented as noncurrent in a classified statement of financial position? If not, why, and what alternatives should the Board consider, and what is the conceptual basis for the alternatives?

Yes. We believe that deferred tax assets and liabilities should be presented as noncurrent in a classified statement of financial position. We believe today’s guidance does not provide meaningful information because the classification of deferred tax balances often does not align with the expected reversal of the related temporary difference. For example, a deferred tax liability related to an entity’s LIFO inventory reserve is classified as current, even though the related temporary difference generally will not reverse in the foreseeable future. Additionally, the requirement to allocate a valuation allowance between current and noncurrent deferred tax assets on a pro rata basis does not provide meaningful information because the allocation is arbitrary. We also believe that applying today’s guidance is challenging. For example, entities have to determine the expected reversal date of temporary differences such as those related to net operating loss carryforwards and stock options.

Consequently, we believe the Proposed Standard would simplify the guidance for the balance sheet classification of deferred taxes without significantly affecting the quality of information provided to financial statement users, thus meeting the objectives of the Board’s simplification initiative.

The Proposed Standard also would align US GAAP with the presentation guidance in International Accounting Standards (IAS) 1, Presentation of Financial Statements, which requires the classification of deferred taxes as noncurrent. We believe this convergence would be a favorable outcome.

Question 2: Should the proposed guidance be applied on a prospective basis?

Applying the Proposed Standard prospectively would result in a lack of comparability between current and prior-period financial statements. We believe that financial statement users would likely benefit from retrospective application. Additionally, preparers may prefer retrospective application to avoid having to explain differences in balance sheet presentation and ratios between current and prior periods. However, because some preparers may incur additional costs to apply the Proposed Standard retrospectively, we believe preparers should be given the option to apply the Proposed Standard on a retrospective basis.
**Question 3:** Should the amendments in this proposed Update be effective for:

(a) Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016

(b) All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?

We support the proposed effective dates because we do not believe that the proposed guidance would be difficult for entities to adopt. However, we believe that early adoption should be permitted for all entities so they can apply the simplified accounting sooner.

**Question 4:** What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?

Given the scope of the Proposed Standard, we anticipate that the transition costs of adopting the Proposed Standard would be minimal. Further, because the Proposed Standard would simplify an entity's accounting, we would not expect that applying the Proposed Standard would cost more than applying current US GAAP. We believe the Board should focus particularly on the input of preparers in evaluating transition costs.
Appendix B – General comments about the Proposed Standard

We have the following additional comment:

The proposed amendments to paragraph 740-10-65-5(f)(2) specify that a public business entity shall disclose that the prior periods were not “restated.” The Master Glossary defines “restatement” as “[t]he process of revising previously issued financial statements to reflect the correction of an error in those financial statements.” Because retrospective application of the Proposed Standard would not result in the correction of a prior period error, we believe the use of the term “retrospectively adjusted” would be more appropriate.

Thus, we recommend that the FASB amend the transition guidance as follows:

740-10-65-5(f)(2): “In the first interim and annual period of adoption, a public business entity shall disclose the following:

1. The nature of and reason for the change in accounting principle
2. A statement that prior periods were not retrospectively adjusted restated.”