January 30, 2018

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

RE: Proposed Accounting Standards Update, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (File Reference No. 2018-210)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

We commend the Board for its responsiveness to stakeholder concerns about the requirement to recognize the effects of tax law changes through income from continuing operations even when deferred tax assets and liabilities initially have been recognized in other comprehensive income. We believe the proposed reclassification of stranded tax effects from accumulated other comprehensive income to retained earnings would address those concerns. However, we believe the costs for some organizations to isolate and reclassify only those amounts resulting from the newly enacted federal corporate income tax rate could outweigh the financial reporting benefits of doing so. As a result, we recommend that the Board consider making reclassification optional until it completes its research agenda project on backwards tracing and decides whether to undertake a standard-setting project on that subject.

Our recommendations and responses to selected Questions for Respondents are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Angela Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP
Appendix – Responses to Selected Questions for Respondents

Question 1:

Do you agree with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate? If not, why?

We believe the proposed reclassification of stranded tax effects from accumulated other comprehensive income to retained earnings would address stakeholder concerns. However, we believe the costs for some organizations to isolate and reclassify only those amounts resulting from the newly enacted federal corporate income tax rate could outweigh the financial reporting benefits of doing so. As a result, we recommend that the Board consider making the reclassification optional until it completes its research agenda project on backwards tracing and decides whether to undertake a standard-setting project on that subject.

Although financial statement users generally benefit most when companies apply consistent accounting policies, we believe this circumstance warrants permitting a company to elect an accounting policy. A policy choice would affect comparability among companies. Companies that elect to apply the proposed guidance would never recognize in continuing operations the previously stranded amounts and those that do not apply it eventually would (based on their existing policy for releasing those amounts). However, there is little comparability today in accounting for stranded tax effects because some companies reclassify those effects as they sell individual items and some reclassify them when they liquidate their entire portfolios. We do not believe that permitting a policy choice would make financial information less comparable than it is under existing GAAP. Further, we believe the Board can address comparability concerns in a project on backwards tracing.

With regard to the amount of the reclassification, we believe the Board should clarify whether companies also should reclassify stranded indirect tax effects resulting from the newly enacted federal corporate income tax rate, e.g. the decrease in the federal tax benefit expected from the future payment of state income tax.

Question 2:

Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

Yes. We believe that the proposed transition requirements are appropriate.

Question 3:

Do you agree that early adoption should be permitted?

Yes. We believe that the Board should permit early adoption.

Question 4:

Do you agree with the proposed effective date? If not, what effective date is more appropriate and why?

Yes. We agree with the proposed effective date.
Question 5:

GAAP generally prohibits backwards tracing, which is the process of recognizing the effects of changes in deferred tax amounts in the current year in the same line item in which the deferred tax amounts were originally recognized (for example, other comprehensive income) in prior years. The Board did not allow backwards tracing as part of this project and is currently researching the merits of a broader project on backwards tracing. Should the Board add a broader project on backwards tracing to its active agenda? If so, why? Additionally, should the following alternatives to backwards tracing be considered in that broader project? If so, why?

a. Accounting for the release of the stranded tax effects from accumulated other comprehensive income

b. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with prior changes in other tax rates (for example, state and local taxes)

c. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with all future changes in tax rates.

Yes. We believe the Board should add a broader project on backwards tracing to its standard-setting agenda. As stated in our cover letter, we believe the proposed guidance would address the immediate concerns expressed by stakeholders. However, the proposed guidance would not address all stranded tax effects in accumulated other comprehensive income. Therefore, the tax effects remaining in accumulated other comprehensive income after the proposed reclassification still would not bear a meaningful relationship to the reported amounts of deferred tax assets and liabilities for many companies, e.g. those that have released valuation allowances through continuing operations. As a result, we believe the Board should consider backwards tracing broadly, including evaluating the merits of each of the three alternatives that it identified.