February 2, 2018

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

Via email to director@fasb.org

Re: File Reference No. 2018-210

Dear Ms. Cosper:

We are pleased to comment on the Financial Accounting Standards Board’s (FASB or Board) Proposed Accounting Standards Update (ASU), Income Statement – Reporting Comprehensive Income (Topic 220). We are appreciative of the Board’s effort to address concerns raised regarding financial reporting issues that have arisen as a consequence of the Tax Cuts and Jobs Act of 2017 (Act). We also would like to acknowledge the Board’s diligence to expedite this proposed ASU.

We are supportive of the Board’s recommendation to require a reclassification adjustment from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from accounting for the newly enacted federal corporate rate. However, we do have a concern regarding the method proposed to quantify the reclassification. What is proposed in paragraph 220-10-45-12A differs from the simplistic approach discussed in the first paragraph of the “What are the Main Provisions and Why Would They Be an Improvement?” section of the proposal which states “The amendments in this proposed Update 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. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 12 percent corporate income tax rate.” Whereas, paragraph 220-10-45-12A states “the amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21 percent U.S. federal corporate income tax rate, excluding the effects of any valuation allowances previously charged to income from continuing operations.”

To appropriately determine the amounts initially charged and remaining in AOCI in accordance with paragraph 220-10-45-12A, many companies would need to perform a backwards tracing exercise. For some companies, this may not be a challenging endeavor. Since U.S. GAAP prohibits backwards tracing, many companies likely do not have, readily available, the historic information that would be required to perform such an exercise. In addition to changes in tax rates, stranded tax effects can arise due to complexities in the interim and intraperiod ASC 740 requirements. As such, any stranded tax effects that previously arose would need to be considered when determining the balance of the amounts initially charged to other comprehensive income (OCI) that still remain in AOCI at enactment date. Without a detailed backwards tracing exercise, many companies may be unable to accurately quantify the reclassification amount of the enactment date. For example, consider a company has an available-for-sale securities portfolio that they have maintained for numerous years and they elected to release
stranded tax effects on the portfolio basis as opposed to on an individual security basis. In this scenario, the company has not maintained a detailed record of all the related OCI activity since the portfolio’s inception under the premise the entire AOCI balance would be released upon liquidation. In situations such as this, the cost of the analysis may likely outweigh the benefit received.

Due to the reasons cited above, we propose an alternative for companies to use as a practical expedient for the Board to consider. Under the practical expedient, the reclassification adjustment would equate to the remeasurement adjustment on the gross temporary differences at the enactment date for the temporary differences that originated in OCI.

The practical expedient would address certain stakeholder concerns noted in paragraph BC3 in the Background Information and Basis for Conclusion section of the proposed ASU. These stakeholders asserted that the recording of the adjustment to income from continuing operations for the remeasurement of deferred tax assets and liabilities that were originally recorded in OCI do not reflect the appropriate tax rate. They further indicated that recording those tax effects through income from operations and ultimately retained earnings might have a negative effect. This practical expedient would also be consistent with the approach discussed in the first paragraph of the “What Are the Main Provisions and Why Would They Be an Improvement?” section of the proposal.

If the Board chooses not to pursue our proposed practical expedient, we would recommend the Board consider making adoption of the proposed ASU optional. This would allow companies to decide not to reclassify amounts out of AOCI if they determine the costs outweigh the benefit of the reclassification.

Please contact Scott Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com if you have any questions with respect to our response.

Sincerely,

Crowe Horwath LLP