

November 10, 2017

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Golden and Ms. Cospers:

The purpose of this letter is to suggest certain changes to ASC 740, *Income Taxes*, and related areas that we believe will reduce unnecessary complexity. This letter is being jointly submitted by the individuals below on behalf of each of their respective firms: Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP.

The FASB has been focused on reducing unnecessary complexity across *all* areas of the accounting standards, including the issuance of several updates to ASC 740. However, ASC 740 continues to be a frequent source of financial statement errors and restatements and we believe that there are additional changes that can be made to it to further reduce unnecessary complexity, and to be responsive to the FAF's post-implementation review on FAS 109.

Appendix 1 includes suggested changes to improve eight narrow, isolated aspects of the guidance in ASC 740. Based on our experience consulting on these topics, we believe that the guidance may be unclear, is sometimes applied inaccurately and inconsistently, and/or does not provide incremental decision-useful information to financial statement users when compared with simpler alternatives.

Appendix 2 includes suggested codification improvements that we believe should also be considered. We do not expect them to cause a significant change in practice or be difficult to implement. However, we believe these suggested corrections will mitigate unnecessary confusion associated with these topics.

We did perform limited outreach to preparers to understand the implications of these suggested changes and would be happy to discuss with you what we heard. We also welcome any questions you may have regarding these suggestions.

Respectfully,

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Appendix 1 – Proposed simplifications

Item 1. Intraproduct tax allocation – Elimination of the “FAS 109 paragraph 140” exception

Background: Intraproduct tax allocation principles indicate that the tax effect of pre-tax income or loss from continuing operations generally should be determined by a computation that does not consider the tax effects of items that are not included in continuing operations (the “with-and-without” or “incremental” approach). An exception to that incremental approach is established by ASC 740-20-45-7, which indicates that all items (for example, discontinued operations, other comprehensive income, and so forth) should be considered in determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations.

ASC 740-20-45-7 states that this exception to the incremental approach is intended to facilitate consistency with the approach in Subtopic 740-10 to consider the tax consequences of taxable income expected in future years in assessing the realizability of deferred tax assets. However, this exception creates counterintuitive outcomes, with a benefit being shown in continuing operations and an offsetting tax expense in another component, even where total tax expense is zero.

Proposal:

1. Eliminate the exception in ASC 740-20-45-7.
2. Modify the example in ASC 740-20-55-10 through 12 to show the allocation of tax assuming the entity (a) needs a valuation allowance, and (b) does not need a valuation allowance.
3. Delete the last sentence of ASC 740-20-55-14.

Proposed transition: Prospective

Value proposition: The Financial Accounting Foundation’s *Post-Implementation Review (PIR) Report on FASB Statement No. 109, Accounting for Income Taxes*, (the PIR Report) cited intraproduct allocation as one of the aspects of income tax accounting that preparers and practitioners find particularly challenging. The proposed changes would be responsive to this finding, providing a cost-effective change that would reduce complexity without reducing the usefulness of the information. In fact, the proposed changes would allow a more intuitive reporting result – for example, a company with a full valuation allowance and a loss from continuing operations would report zero tax benefit in continuing operations.

The proposed changes would also eliminate inconsistencies in practice. For example, some have interpreted the current guidance to apply if there is a loss from continuing operations and any one category below continuing operations is in a gain position. In contrast, others have interpreted the guidance to mean that the exception only applies if there is a loss from continuing operations and the sum of all categories below continuing operations (discontinued operations, other comprehensive income, and so forth) are in an overall gain position.

Finally, the proposed changes would eliminate existing confusion about whether the exception applies when there are other credits that would otherwise attract a tax expense, such as pre-tax amounts reflected in additional paid-in capital.

Appendix 1 – Proposed simplifications**Item 2. Intraproduct tax allocation – “Backwards tracing”**

Background: The intraperiod tax allocation rules require certain items to be recorded entirely within income from continuing operations. These items include: the tax effects associated with changes in tax laws or rates, changes in tax status of an entity, and changes that impact the valuation allowance for deferred tax assets existing as of the beginning of the year, with certain exceptions related to specific items recorded in equity. Those exceptions have historically been identified in ASC 740-20-45-11(c) through (f). For these items, ASC 740-10-45-20 and ASC 740-20-45-4 require that the tax benefits from initial recognition (that is, by elimination of the valuation allowance) must be “traced back” to the source of the carryforward or taxes paid in a prior year. ASC 740-20-45-11(d) and (e), however, have since been superseded by ASU 2016-09, *Compensation—Stock compensation (Topic 718): Improvements to employee share-based payment accounting*, leaving only the 11(c) and 11(f) exceptions.

ASC 740-20-45-11(c) requires the tax benefits of an increase or decrease in contributed capital (for example, deductible expenditures reported as a reduction of the proceeds from issuing capital stock) to be reported in equity. In practice, however, it is sometimes difficult to distinguish the tax benefits stemming from an ASC 740-20-45-11(c) transaction from those transactions covered by ASC 740-20-45-11(g), which relates to tax benefits stemming from transactions among or with shareholders. The latter is excluded from the ASC 740-10-45-20 backwards tracing requirement.

ASC 740-20-45-11(f) requires the tax benefits of deductible temporary differences and carryforwards that existed at the date of a quasi-reorganization to be reported in equity. Quasi-reorganizations are rare.

Proposal: Eliminate the backwards tracing requirements in ASC 740-10-45-20 and ASC 740-20-45-4. This change would not impact the accounting for the ASC 740-20-45-11(c) or 45-11(f) events recognized in the period in which they occurred.

Conforming changes would also be required to:

- ASC 852-740-45-3
- ASC 852-740-55-2 through 55-6
- Proposed Accounting Standards Update, *Codification Improvements*, ASC 220-10-45-10B(b)(2)

Proposed transition: Prospective

Value proposition: The proposed changes would be responsive to the PIR report discussed in Item 1, and would also be consistent with recent simplification efforts. For example, ASU 2016-09 eliminated the requirement to record the tax effects of excess tax benefits and deficiencies related to employee stock options (formerly ASC 740-20-45-11(d)) and dividends that are paid on unallocated shares held by an ESOP (formerly ASC 740-20-45-11(e)) in equity, and in so doing, the requirement to backwards trace the initial recognition of such items.

In addition, removing the requirement to backwards trace items covered by ASC 740-20-45-11(c) would eliminate the confusion with respect to whether items are covered by ASC 740-20-45-11(c), where backwards tracing is required, and ASC 740-20-45-11(g) related to transactions among or with shareholders, where backwards tracing is prohibited. The types of transactions covered by ASC 740-20-45-11(c) and ASC 740-20-45-11(g) are often effectively very similar and it can sometimes be difficult to differentiate which guidance applies.

Appendix 1 – Proposed simplifications

Item 3. Ownership changes in investments – Change from subsidiary to equity method investee

Background: If a subsidiary becomes an investee, ASC 740-30-25-15 indicates that the amount of outside basis difference of the subsidiary for which deferred taxes were not provided for the reasons cited in ASC 740-30-25-17 is effectively “frozen” until the period that it becomes apparent that any of the undistributed earnings (prior to the change in status) will be remitted. The guidance notes that the change in status of an investment would not by itself mean that remittance of those undistributed earnings shall be considered apparent. However, a deferred tax liability will be recognized for the remaining excess of the financial statement carrying amount over the tax basis of the equity method investment.

Proposal: Eliminate the provision in ASC 740-30-25-15 that requires “freezing” of an amount of the outside basis difference at a point in time by revising ASC 740-30-25-15 to read as follows:

~~“An investment in common stock of a subsidiary may change so that it is no longer a subsidiary because the parent entity sells a portion of the investment, the subsidiary sells additional stock, or other transactions affect the investment. If the remaining investment in common stock shall be accounted for by the equity method, the investor shall recognize income taxes on its share of current earnings of the investee entity in accordance with the provisions of Subtopic 740-10. If a parent entity did not recognize income taxes on its equity in undistributed earnings of a subsidiary for the reasons cited in paragraph 740-30-25-17 (and the entity in which the investment is held ceases to be a subsidiary), it shall accrue as a current period expense income taxes on undistributed earnings in the period that it becomes apparent that any of those undistributed earnings (prior to the change in status) will be remitted. The change in the status of an investment would not by itself mean that remittance of these undistributed earnings shall be considered apparent. If a parent entity recognizes a deferred tax liability for the its temporary difference related to its remaining investment in common stock in accordance with the provisions of Subtopic 740-10. arising from its equity in undistributed earnings of a subsidiary and subsequently reduces its investment in the subsidiary through a taxable sale or other transaction, the amount of the temporary difference and the related deferred tax liability will change.”~~

Proposed transition: Modified Retrospective

Value proposition: The guidance in ASC 740-30-25-15 allows an investor to continue to assert the indefinite reversal exception on a subset of earnings that occurred before the subsidiary became an equity method investee (so long as it is not apparent that it will reverse), but does not allow it to make the same assertion for its share of the future earnings of the investee. Applying the exception to a portion of an investor’s outside basis difference increases complexity and is inconsistent with the general guidance that indicates that an equity method investor cannot assert the indefinite reversal exception to the taxable outside basis difference of an investment.

Appendix 1 – Proposed simplifications

Item 4. Ownership changes in investments – Change from investee to subsidiary

Background: If an unconsolidated domestic investee for which a related deferred tax liability has been recognized becomes a subsidiary, and the excess of the financial statement carrying amount over the tax basis is not a taxable temporary difference based on the provisions of ASC 740-30-25-7 and 25-8, the previously recognized deferred tax liability is eliminated.

In contrast, the deferred tax liability related to an unconsolidated foreign investee that becomes a subsidiary is not eliminated based on the provisions of ASC 740-30-25-16 even if the indefinite reversal criterion in ASC 740-30-25-17 could apply to the unremitted earnings of the foreign subsidiary after the investee becomes a subsidiary.

Proposal: Eliminate ASC 740-30-25-16.

Proposed transition: Modified Retrospective

Value proposition: The “freezing” of the deferred tax liability on the unconsolidated foreign investee outside basis difference creates an arbitrary amount that the investor does not evaluate for continued propriety under the indefinite reversal assertion. The reporting of the deferred tax liability for this historical amount of undistributed earnings that occurred before control was obtained would seem to have limited value to users of the financial statements.

The “freezing” of the deferred tax liability also increases complexity (e.g., additional record-keeping requirements) and seems inconsistent with the general principle that otherwise allows a company to change its indefinite reversal assertion based on changes in circumstances at the balance sheet date.

Appendix 1 – Proposed simplifications

Item 5. Interim period accounting for enacted tax laws

Background: The fundamental principle related to the accounting treatment of a change in tax law is established in ASC 740-10-25-47, which states, “The effect of a change in tax laws or rates shall be recognized at the date of enactment.” ASC 740-270-25-5 indicates that the tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be recorded after the effective date and no earlier than the enactment date, while ASC 740-10-45-15 and ASC 740-270-25-6 indicate that the tax effect of a change in tax laws or rates on deferred tax accounts and taxes payable or refundable for a prior year shall be recognized in the period that includes the enactment date.

Further, under the interim period tax reporting model, a company is required, at the end of each interim reporting period, to make its best estimate of the annual effective tax rate for the full fiscal year and use that rate to provide for income taxes on a current-year-to-date basis. The estimated effective tax rate should reflect federal, state and local income tax rates, foreign tax rates and credits, percentage depletion, capital gains rates, other taxes and credits and available tax-planning alternatives (ASC 740-270-30-8). The guidance in ASC 740-270-25-5 appears to be inconsistent with both ASC 740-10-25-47 and the fundamental principles in ASC 740-270-30-8, often resulting in an unusual outcome whereby existing temporary differences are remeasured (and reported discretely) in the period of enactment, yet the effect on the annual effective tax rate (AETR) would not be considered until a subsequent interim period when the enacted legislation is effective.

The example in ASC 740-270-55-44 through 55-49 (i.e., Example 6, Effect of New Tax Legislation) highlights the inconsistencies mentioned above. We believe that these inconsistencies have led to diversity in practice as to whether the interim period of enactment, versus the interim period in which the law becomes effective, is used in calculating the AETR. Further, Case B lacks some clarity with respect to the period the legislation was enacted.

It may be that ASC 740-270-25-5 and the related example were only intended for tax credits legislation; however, there is no such explanation included and it would seem difficult to justify such a distinction.

Proposal:

1. Revise the language in ASC 740-270-25-5, as follows:

ASC 740-270-25-5 The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates ~~on taxes currently payable or refundable for the current year shall be recorded after the effective dates prescribed in the statutes and reflected in the computation of the annual effective tax rate beginning no earlier than in the first interim period that includes the enactment date of the new legislation.~~ The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate.

2. Delete the example in ASC 740-270-55-44 through 55-51 or modify Case A in the example to reflect the change in the estimated annual effective tax rate in the second quarter, and Case B in the example to state the period the legislation was enacted.

Proposed transition: Prospective as of the beginning of the year of adoption

Value proposition: The proposed changes would eliminate inconsistencies in practice. For example, some have interpreted the current guidance to mean a change in tax law with a future effective date in the same annual period should be ignored as of the enactment date in calculating a current interim tax provision. In contrast, others have looked to the overarching principles of interim reporting and change in tax law guidance, and interpreted the guidance to mean that the change in tax law should be considered as of the enactment date. The proposed changes would also eliminate existing confusion about whether the example applies only for tax credit legislation.

Appendix 1 – Proposed simplifications

Item 6. “Hybrid” tax regimes

Background: In a “hybrid tax” regime, an entity pays the greater of two tax computations, one of which is typically based on taxable profit and the other of which is based on items other than income (e.g., gross revenue, capital expenditures, capital). The guidance in ASC 740-10-15-4(a) and the related implementation guidance beginning in ASC 740-10-55-139 establish a framework in which an entity should bifurcate the amount payable into income taxes and non-income taxes (the guidance specifically addresses franchise taxes based on capital). The amount in excess of the portion that is considered a non-income tax would be an income tax and within the scope of ASC 740.

We believe the current framework in ASC 740 raises questions about what rate to use when recording deferred taxes on temporary differences and does not result in increased usefulness to users of the financial statements. In addition, because the current guidance often results in complex calculations for amounts that are often insignificant, we believe diversity in practice may exist with respect to how entities bifurcate the payments in hybrid tax regimes. Some entities may be classifying this tax entirely as income tax expense or entirely as non-income tax expense.

Proposal:

Remove the prescriptive guidance in ASC 740-10-15-4(a) (see below), as well as Example 17 and the related implementation guidance beginning in ASC 740-10-55-139, and instead allow judgment to be applied:

ASC 740-10-15-4 The guidance in this Topic does not apply to the following transactions and activities:

- a. A franchise tax to the extent it is based on capital and there is no additional tax based on income. ~~If there is an additional tax based on income, that excess is considered an income tax and is subject to the guidance in this Topic. See Example 17 (paragraph 740-10-55-139) for an example of the determination of whether a franchise tax is an income tax.~~

Alternatively, if the Board believes that prescriptive guidance is still necessary for hybrid tax regimes, we would recommend that the amount computed based on taxable profit is always included within the scope of ASC 740 and any incremental amount is recorded as a non-income based tax by:

- a. Modifying ASC 740-10-15-4 to add a new second sentence that says: If there is an amount based on taxable profit, it should be included in the tax provision, with any incremental amount recorded as a non-income based tax.
- b. Adding a new example illustrating the concept in ASC 740-10-15-4(a) above using a tax regime that is based on the higher of an income tax and a non-income tax.

Proposed transition: Modified Retrospective

Value proposition: We believe eliminating the current prescriptive guidance would provide entities the ability to recognize income tax in hybrid tax regimes based on the individual facts and circumstances surrounding the tax and, accordingly, reduce the complexity in determining the tax rate used to record deferred taxes. If the Board believes the better alternative is to continue to provide prescriptive guidance, the remainder of our proposed changes would reduce the complexity in accounting for income taxes in hybrid regimes by requiring entities to account for the portion of the tax obligation based on income under the hybrid tax regime in accordance with ASC 740.

Appendix 1 – Proposed simplifications

Item 7. Single member LLCs – Separate financial statements

Background: For US federal income tax purposes, a limited liability company (LLC) with only one member (a "single member LLC" or "SMLLC") can be classified as a regarded entity (i.e., a corporation) or can be disregarded as an entity separate from its owner. While disregarded by the IRS, a SMLLC maintains a corporate existence that, by design, shields its assets from general creditors.

ASC 740-10-30-27 requires that the "consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements." However, unlike a "member" of a group that files a consolidated tax return (which would be subject to the provisions of ASC 740-10-30-27), a single member LLC that is disregarded for tax purposes generally is not severally liable for the current and deferred income taxes of its taxable owner (i.e., its assets are legally separate by virtue of its corporate existence). Accordingly, while existing US GAAP would appear to support excluding taxes from the separate financial statement of a SMLLC, diversity in practice exists with respect to whether or not taxes should be allocated to SMLLCs. The existence of tax-sharing agreements between the parties also adds complexity to the issue. Additionally, for public registrants, while SAB Topic 1.B.1 (which addresses the allocation of expenses, including taxes, in financial statements of subsidiaries, divisions, or lesser business components) is routinely applied to divisions (businesses included in the consolidated tax return group that are not legally separate by virtue of their corporate existence), it is not applied to partnerships, which are considered non-taxable entities.

ASC 740-10-50-16 proposes an additional disclosure for a "public entity that is not subject to income taxes," but does not provide any additional clarity with respect to whether that determination is made at the "member" level, or otherwise.

Proposal: Modify ASC 740-10-30-27 to add the following as a new second sentence: For these purposes, legal entities that are not subject to tax (e.g., certain partnerships and disregarded entities such as single member LLCs) are not members.

The determination of whether an entity is "subject to tax" would be done on a jurisdiction-by-jurisdiction basis consistent with the rest of the ASC 740 model (i.e., a single member LLC may not be "subject to tax" for federal purposes, but may be "subject to tax" in certain states).

Proposed transition: Optional – Retrospective or Modified Retrospective

Value proposition: We believe this change will reduce complexity and reduce the diversity that exists in current practice, particularly with respect to SMLLCs. Additionally, if an SMLLC is viewed in a manner similar to a partnership in certain jurisdictions, clarification that ASC 740 does not apply would alleviate issues that arise in applying SAB Topic 1.B.1.

NOTE: The Board should assess whether special consideration and/or "grandfathering" would be warranted for certain rate-regulated enterprises (subject to the guidance in ASC 980) which include income taxes as a component of allowable costs subject to recovery in the rate-making process.

Appendix 1 – Proposed simplifications

Item 8. Tax basis step-up in goodwill obtained in a transaction that is not a business combination

Background: The guidance in ASC 740-10-25-54 (formerly, paragraph 6 of EITF 98-11) states, “In situations in which the tax basis step-up relates to goodwill that was previously not deductible, no deferred tax asset would be recorded for the increase in basis except to the extent that the newly deductible goodwill amount exceeds the remaining balance of book goodwill.” This requirement can often result in noneconomic income statement outcomes, particularly in cases where the tax-basis step-up in goodwill is “paid for” by the entity in cash or by sacrificing existing tax attributes (e.g., NOL carryforwards or basis in other assets). Additionally, in practice it is not always clear that the new tax deductible goodwill actually directly corresponds with the original book goodwill recorded (e.g., because of a significant lapse in time between the transactions, a realignment of the goodwill for book purposes between reporting units, or otherwise), raising questions about the application of the aforementioned guidance. This requirement also seems inconsistent with the current ASC 805 model, which requires tax adjustments that occur outside of the measurement period to be reflected in the income statement.

Proposal: Eliminate the prescriptive guidance in ASC 740-10-25-54 and instead note that tax basis step-up acquired or achieved in a subsequent or follow-on transaction would need to be evaluated to determine whether: a) it relates to the initial recognition of book goodwill, in which case no deferred tax asset would be recorded except to the extent that the newly deductible goodwill amount exceeds the remaining balance of book goodwill, or b) it should be accounted for as a separate transaction, in which case a separate deferred tax asset would be recorded for the entire amount of the newly deductible goodwill, subject to a valuation allowance.

Because judgment will be necessary to make this determination, we also propose that the Board provide a list of indicators that would suggest when the step-up would be accounted for as a separate transaction, resulting in the recording of a separate deferred tax asset. These indicators may include:

- 1) A significant lapse in time between the transactions (e.g., the tax basis step-up is only achieved after the measurement period closes)
- 2) The tax basis in the newly created goodwill is not the direct result of settlement of liabilities recorded in connection with the acquisition
- 3) The tax basis step-up is based on a valuation of the goodwill or business subsequent to the date of the business combination
- 4) The transaction resulting in the step-up involved more than a simple tax election
- 5) The entity had to incur a cash tax cost or sacrifice existing tax attributes in order to achieve the step-up to goodwill, such as in a domestic IRC Section 338(g) election
- 6) The transaction resulting in the step-up was not contemplated at the time of the business combination

Proposed transition: Prospective

Value proposition: The proposed accounting will eliminate the aforementioned noneconomic income statement outcomes, enhance consistency with the current ASC 805 model, and lessen diversity in practice through the introduction of the indicators.

Appendix 2 – Proposed codification improvements

Codification improvement #1 – Disclosures of unrecognized tax benefits

Background: ASC 740-10-50-15 requires that all of the disclosures be provided for each annual reporting period presented in the financial statements.

Proposed codification improvement: Clarify the guidance in ASC 740-10-50-15 to indicate which disclosures are to be presented for all periods versus those which should be presented only as of the most recent balance sheet date.

The requirement that all disclosures be provided for each annual reporting period is counterintuitive if the disclosure is forward looking in nature (such as the disclosure of the amounts that might change in the next 12 months, the description of tax years that remain subject to examination by major tax jurisdictions and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate).

Appendix 2 – Proposed codification improvements

Codification improvement #2 – Tabular reconciliation of unrecognized tax benefits

Background: ASC 740-10-50-15A indicates that Public Entities shall disclose the following at the end of each annual reporting period presented:

- a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:
 1. The gross amount of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period
 2. The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period.

In our view, there could only be increases in unrecognized tax benefits from current year tax positions taken (at least within the context of an annual period). In fact, Example 30 in ASC 740-10-55-217 only presents a separate line item for “additions based on tax positions related to the current year” while it presents separate line items for both additions and reductions in regard to tax positions of the prior years.

Proposed codification improvement: Remove “and decreases” from 740-10-50-15A(a)(2).

Appendix 2 – Proposed codification improvements

Codification improvement #3 – Income statement presentation of tax benefits of tax-deductible dividends

Background: Prior to the issuance of ASU 2016-09, ASC 718-740-45-7 read as follows (emphasis added):

“Furthermore, the tax benefit of tax-deductible dividends on allocated employee stock ownership plan shares shall be recorded as a reduction of income tax expense allocated to **continuing operations...**”

ASU 2016-09 amended that paragraph as follows (emphasis added):

“~~Furthermore, the~~The tax benefit of tax-deductible dividends on allocated and unallocated employee stock ownership plan shares shall be recognized in the income statement recorded as a reduction of income tax expense allocated to continuing operations...”

All other references regarding tax-deductible dividends (ASC 740-20-45-8(d), ASC 740-20-55-2(d)) continue to indicate continuing operations.

Proposed codification improvement: Change “in the income statement” in ASC 718-740-45-7 to “in continuing operations.”

Appendix 2 – Proposed codification improvements

Codification improvement #4 – Impairment of investment in qualified affordable housing projects accounted for using the equity method

Background: The example in ASC 323-740-55-8 provides a detailed analysis of the accounting for an investment in qualified affordable housing projects using the equity method (that does not qualify for use of the proportional amortization method). Footnote (a) in the example indicates that the investment becomes impaired in year 9, and that the impairment is measured based on the remaining tax credits allocable to the investor. This method of measuring the impairment would actually have resulted in an impairment of the investment in an earlier period based on the revised facts that were used when that example was updated in connection with the issuance of ASU 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. Additionally, it is also inconsistent with the method of measuring impairment prescribed in both ASC 323-10-35-32 (for general equity method investments) and ASC 323-740-35-6 (for investments in qualified affordable housing projects).

Proposed codification improvement: Delete the example since the focus of the guidance in ASC 323-740 is on the use of the proportional amortization method and not on application of the general equity method in a circumstance where the investment does not qualify for specialized accounting. Alternatively, the Board could leave the example but modify it to indicate that other-than-temporary impairment should be measured consistent with the principles in ASC 323-10-35-32.