



September 30, 2016

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

File Reference No. 2016-270

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update—*Disclosure Framework: Changes to the Disclosure Requirements for Income Taxes*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We are supportive of the Board's efforts to test the guidance in the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, and to consider the guidance for assessing materiality included in proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures are Material*.

In addition to our comments below in response to the proposal's Questions, we believe clarifying that required disclosures may be excluded if they are immaterial supports the efforts of reporting entities to focus disclosures on decision-useful information. Further, it validates a practice already followed by many financial statement preparers.

We also support the Board's efforts to continue to standardize the public entity definition by replacing the existing ASC 740 definition with the Master Glossary "public business entity" definition. Having multiple definitions for public entities within the ASC is an unnecessary source of confusion.

Finally, we agree with the remark in paragraph BC92 that the rate reconciliation is one of the most useful disclosures about income taxes and should be retained for public business entities. We further support the Board's decision to select a threshold for presenting reconciling items that is consistent with the existing requirement in SEC Regulation S-X 210.4-08(h)(2), thereby avoiding unnecessary incremental costs for the public business entities that must provide the rate reconciliation.

Following are our responses to the proposal's Questions for Respondents.

1. *Would the proposed amendments result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.*

We believe the proposed amendments would add or enhance, and not eliminate, decision-useful information. In particular, the proposed disclosures pertaining to domestic and foreign income taxes would add needed transparency without undue cost, and the proposed disclosure of government assistance agreements would enable financial statement users to better assess future cash flows.

2. *Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?*

Yes.

3. *Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.*

No.

4. *The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?*

No. We agree with the Board's proposal.

5. *The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27-BC40 of this proposed Update). Is there other information that the Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?*

No. We believe the Board considered many relevant and decision-useful alternatives and selected for disclosure the most cost-effective indicators of the likelihood of the future remittance of foreign earnings and the associated exposure to income taxes.

6. *The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.*

Yes. We believe the Board provides appropriate justification for each exemption in its Basis for Conclusions and that removing these exemptions would increase costs while providing no additional decision-useful information beyond what is already available to stakeholders of nonpublic business entities.

7. *Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.*

Yes. In question L4, the Concepts Statement addresses financial statement lines containing components that do not affect cash flows in the same manner. Income tax expense (or benefit) is an example of such a financial statement line, necessitating the disclosure of its various components (as required by paragraph 740-10-50-9). However, we find that component (c) of that paragraph, "Investment tax credits," lacks clarity as to its nature and may mislead financial statement users assessing cash flow prospects.

We suggest revising the description of component (c) to read "Net amount of income tax credits deferred (amortized) under the deferral method." While we suspect few entities elect the deferral method for investment tax credits, as described in paragraph 740-10-25-46, for those entities that do make the election this proposed revision would clarify for financial statement preparers and users alike the amount that is represented by this component, which has no direct cash flow impact. It is neither the amount of investment tax credit arising during the period (which reduces current income taxes) nor the amount amortized during

the period, which if significant would be disclosed in the rate reconciliation table. Similarly, the requirement in paragraph 740-10-50-20 to disclose the deferral or flow-through policy “and amounts involved” should be clarified or the reference to amounts deleted.

The pertinent amount for assessing cash flow prospects is the investment tax credit on the current tax return. For an entity that elects the deferral method, this can be derived by adding back the amortization from the rate reconciliation table to the net amount disclosed for component (c) of Income Tax Expense (or benefit). We believe that amending the description of component (c) as suggested above will allow the financial statement user to make this determination, resulting in more decision-useful information.

8. *Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons?*

No.

9. *Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.*

We agree with the Board’s decision that *requiring* retroactive application is not warranted due to the potential cost and risk of error associated with manually gathering prior-period information for certain entities. However, we believe entities should be allowed the option to adopt the proposed accounting standards update retrospectively or prospectively. This would allow entities to individually assess the cost / benefit of adopting retrospectively versus prospectively, while considering the needs of financial statement users. Providing this alternative would allow entities to determine the most relevant presentation that provides decision-useful information to the stakeholders of their financial statements.

10. *How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If the answer is “yes” to either question, please explain why.*

We recognize that private entities are often afforded an additional year to implement new accounting guidance; however, an extended deferral period does not seem warranted in this instance because the proposed amendments are not overly complex. Therefore, we suggest aligning the effective date for all entities at one year after the issuance of final guidance. We believe this would allow sufficient time for the implementation of the proposed amendments for *both* public and private entities.

We believe that early adoption should be permitted since the proposal generally allows for additional disclosures that would be useful to financial statement users.

We appreciate the opportunity to offer our comments.

Sincerely,

Ryan Brady, CPA

Chair, Accounting Principles Committee

Brian Kot, CPA

Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA (Chair)	Grant Thornton LLP
Rakesh Desai, CPA	KPMG LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA	Crowe Horwath LLP
Reid Mitchell, CPA	Wipfli LLP
Elizabeth Prossnitz, CPA	BDO USA LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Matthew Mitzen, CPA	Marcum LLP
Jeffery Watson, CPA	Miller Cooper & Co., Ltd.

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA (Vice Chair)	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC

Educators:

John Hepp, CPA	University of Illinois at Urbana-Champaign
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Industry:

Rose Cammarata, CPA	Mattersight Corp.
Ashlee Earl, CPA	Seaway Bank and Trust Company
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Christopher Hamm, CPA	Artex Risk Solutions, Inc.
Marianne Lorenz, CPA	Southern Company Gas
Michael Maffei, CPA	GATX Corporation
Joshua Shenton, CPA	Northern Trust Corp.
Richard Tarapchak, CPA	Reynolds Group Holdings

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
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