May 30, 2023

VIA ELECTRONIC SUBMISSION

Ms. Hillary Salo
Technical Director, FASB
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2023-ED100, Improvements to Income Tax Disclosures (Topic 740)

Dear Ms. Salo,

SIFMA[1] submits this letter to the Financial Accounting Standards Board (the "Board") in response to the proposed accounting standards update *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. We appreciate the opportunity to provide feedback and support the Board's ongoing efforts to provide financial statement users with decision-useful information by improving the effectiveness of disclosures.

I. Executive Summary

While SIFMA understands the Board's objectives and are supportive of several of the proposed amendments, we believe that certain aspects should be reconsidered because the intended benefits are not likely to be achieved with the proposed disclosures. Specifically,

- The prescribed categories and granular disaggregation in the effective tax rate reconciliation would present users with incremental disclosures that are not decision-useful in most cases.

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

- The disaggregation of income taxes paid may not be decision-useful because the information will not be comparable with key financial measures such as income from continuing operations.

- There are alternative approaches, as outlined in the remainder of this letter, which would provide greater clarity on key drivers of material income tax exposures, risks, and opportunities.

SIFMA's primary concerns are discussed below.

II. The Effective Tax Rate Reconciliation Proposal Would Result in Disclosures Becoming Less Understandable

The proposed amendments to the effective tax rate reconciliation table would greatly expand the level of detail in the disclosure due to the requirements to use specific categories and disaggregate items by both nature and jurisdiction. SIFMA believes this is problematic because, as illustrated in **Appendix B** and **Appendix C**, it would cause certain reconciling items to be grossed-up and spread across multiple categories which would result in the disclosure becoming less understandable. We considered the following examples of reconciling items that would require a gross-up under the proposed amendments, details of which can be found in **Appendix A**:

Reconciling Item	Reported Categories Under Proposal
Foreign operations	• Foreign tax effects • Effect of cross-border tax laws • Tax credits
Impact of cross-border tax laws	• Effect of cross border tax laws • Tax credits • Non-taxable or non-deductible items
Unrecognized tax benefits	• State and local income taxes • Foreign tax effects • Changes in unrecognized tax benefits (federal)
Accounting for tax credit investments	• Tax credits • Non-taxable or non-deductible items (deduction for amortization) • Other (amortization)
Valuation allowances	• Foreign tax effects • Valuation allowances (domestic)

SIFMA does not believe that disaggregating the information in this manner is helpful; and in fact, it would likely be confusing for financial statement users. It would require significant expertise in accounting for income taxes, company-specific knowledge and an understanding of income tax rules and frameworks in multiple jurisdictions to be able to decipher and understand the disaggregated reconciling items. SIFMA believes a higher-level approach, as outlined below, would allow financial statement users to better understand the material income tax exposures, risks, and opportunities a reporting entity faces.

SIFMA believes the existing disclosure requirements reflect an appropriate balance of information. However, if the Board decides to move forward with requiring more disaggregated information, then our recommendations are as follows:

- **Do not prescribe specific categories.** Allowing preparers to exercise judgment based on their unique facts and circumstances (*e.g.,* items that are related should be netted within a single category) will result in cohesive and understandable information for financial statement users. To this end, SIFMA believes a principles-based approach with accompanying examples should be used. This approach would align with other areas of disclosure under U.S. GAAP, including leases and revenue recognition, in which high-level disclosure objectives are used by preparers to determine the appropriate level of disaggregation[2].

    - If prescribed specific categories are kept, allow preparers to group items into "other" if the value of a category does not breach the 5% quantitative threshold.
    - Explicitly allow companies to consider materiality when determining the level of disaggregation.

- **Limit disaggregation requirements.** In order to avoid reconciling items being grossed up and spread across multiple sections of the table, consider limiting the required disaggregation. For example:

    - Consider simpler jurisdictional disaggregation (*e.g.,* foreign and domestic), whereby the foreign tax effects line does not get broken out further (*e.g.,* not requiring break out of third country tax credits or foreign non-deductible income).

[2] For example, the requirements to disaggregate revenue in FASB ASC paragraphs 606-10-50-5 through 50-7 and 606-10-55-89 through 55-91 provide the objective of the disclosure and examples of categories that might be appropriate to include.

- Limit the disaggregation requirement in the foreign tax effects category to only jurisdictions (as opposed to both by nature and by jurisdiction).
- Consider allowing net presentation of home country additive costs such as GILTI (as shown in **Appendix B**).
- Allow aggregation of unrecognized tax benefits and valuation allowances in a single line for all jurisdictions.

- **Remove requirement for both amount and percentages.** SIFMA believes the current approach of one or the other is well understood and requiring both unnecessarily complicates the presentation. If desired, a reader can ascertain the other using the information provided.

III. The Income Taxes Paid Proposal May Not Provide Decision-Useful Information

The requirement to disclose disaggregated income taxes paid information may not be decision-useful for most users of the financial statements because it will not be comparable with key financial measures such as income from continuing operations. Taxes paid in each jurisdiction are driven by various entity-specific and tax law specific factors including timing differences, computation and timing requirements of estimated tax payments, third party or remittance withholding taxes, carryback claims, audit settlements, etc. that prevent the data from being a reliable indicator of an entity's tax exposures, risks and opportunities. Further, the disclosure of disaggregated income taxes paid could be misleading in some cases, for example, when there are material one-time payments or refunds in each jurisdiction that may or may not relate to the current year's income from continuing operations.

SIFMA believes there are more efficient ways to convey information on jurisdictional activity. For example, through the limited disaggregation of the effective tax rate reconciliation recommended above, or through a qualitative description of exposure to material jurisdictions. This could be similar to the proposal pertaining to state and local jurisdictions that contribute to the majority of the effect of that category.

IV. Responses to Questions Raised in the Exposure Draft

SIFMA's remaining comments and considerations correspond to the questions proposed in the exposure draft:

> ***Question 1: The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.***
>
> > ***a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.***
> >
> > ***b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories? If so, please describe the specific income tax effect and explain how it should be categorized and why.***
> >
> > ***c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.***

See comments above on the proposed specific categories and disaggregation requirements. Regarding the proposed 5 percent threshold, SIFMA is not opposed to continued use since it is already well understood in practice under SEC Regulation S-X 210.4-08(h). Additionally, consistent with current practice, we believe entities should be permitted to aggregate any categories that are less than the 5 percent threshold individually.

> ***Question 2: The proposed amendments would require that public business entities provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. A qualitative description of state and local jurisdictions was selected over a quantitative disclosure because state and local tax provisions are often calculated for multiple jurisdictions using a single apportioned tax rate. Do you agree with the proposed qualitative disclosure as opposed to providing a quantitative disaggregation? Please explain why or why not.***

SIFMA supports the qualitative approach. However, it would be helpful to provide a common aggregation methodology in computing the said majority.

Question 3: The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as the nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not.

SIFMA believes this requirement is not necessary as most items would be clear from the description. This requirement could have an unintended consequence of entities providing additional, unnecessary information that results in less effective disclosures.

Question 4: For investors, would the proposed amendments to the rate reconciliation disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about rate reconciliation should the Board require?

See comments above. SIFMA does not believe any further information should be required.

Question 5: For preparers and practitioners, would the proposed amendments to the rate reconciliation disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

This requirement would introduce incremental one-time and recurring costs associated with analyzing and categorizing data on a disaggregated basis and designing and operating new internal controls around the preparation and review of the disclosure. Entities operating in multiple jurisdictions would incur higher costs to implement changes in processes, procedures, systems, and controls to compile accurate data from international locations, especially if the process is manual. For example, information at the appropriate level of detail by jurisdiction may reside in different systems, subledgers or may be available only in tax packages/memo account breakouts and will require collecting and aggregating this information. This can be further complicated by holding company structures in which payments are tracked by jurisdiction paid, but that may not be the ultimate jurisdiction where the payment should be reported.

Question 6: Are the proposed amendments to the rate reconciliation disclosure clear and operable? Please explain why or why not.

See comments above. Additionally, clarification is needed in the following areas:

1. Whether withholding taxes (third party, remittances) are part of cross-border tax effects or foreign tax effects. Given that third-party withholding taxes are not taxes on net earnings in the jurisdiction, the language in the ASU should clarify that these taxes can be included in foreign tax effects section and presented net.

2. Whether comparative year data is required if a jurisdiction becomes material for a given category in the current reporting period. For example, if the disclosure is required for 2023, 2022 and 2021, and the UK jurisdiction is material in 2023 but not material in 2022 and 2021. We do not believe the guidance should require disclosure of the UK jurisdiction in the 2022 and 2021 columns of the table.

3. Clarify the purpose of the "Changes in Unrecognized Tax Benefits" category since there is already a requirement for this information.

Question 7: The Board decided not to provide incremental guidance for the rate reconciliation disclosure for situations in which an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rate but has significant business activities in other jurisdictions with higher statutory tax rates. Do you agree with that decision? Please explain why or why not, and if not, what incremental guidance (including the relevant disclosures) would you recommend?

SIFMA believes entities would be able to effectively navigate these situations without incremental guidance, similar to practice today.

Question 8: The proposed amendments would require that public business entities provide quantitative disclosure of the rate reconciliation on an annual basis and a qualitative description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period on an interim basis. Do you agree with that proposed frequency? Please explain why or why not.

SIFMA does not believe this disclosure should be required. Comparing the quarterly Annual Estimated Effective Tax Rate (AETR) to the effective tax rate (ETR) for the prior annual reporting period may be misleading because the prior year's actual ETR incorporates discrete items, whereas, by definition, the AETR is a forecasted rate that does not incorporate discrete items. The ETR for the interim period may also include discrete items that would cause it to differ from that period's AETR. If a qualitative disclosure were to remain for the interim periods, a description of the reconciling items that result in changes in the ETR for the current interim period from the prior year interim period would be more useful to financial statement users (and consistent with current disclosures in MD&A).

Question 9: The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an annual basis by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.

See comments above.

Question 10: For investors, would the proposed amendments to the income taxes paid disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about income taxes paid should the Board require?

See comments above.

Question 11: For preparers and practitioners, would the proposed amendments to the income taxes paid disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

Depending on how many foreign jurisdictions the entity operates in and whether application is retrospective, the amount of incremental costs will vary. The costs could be significant for some entities.

Question 12: Are the proposed amendments to the income taxes paid disclosure clear and operable? Please explain why or why not.

See comments above.

Question 13: The proposed amendments would require that all entities disclose (a) income taxes paid disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and (b) income taxes paid disaggregated by jurisdiction on an annual basis. Do you agree with that proposed frequency? Please explain why or why not.

See comments above. SIFMA does not believe interim disclosure frequency will influence capital allocation decisions and therefore interim disclosures of disaggregated information should not be required.

Questions 14 and 15 were omitted as they apply to private companies only.

Question 16: The proposed amendments would be required to be applied on a retrospective basis. Would the information disclosed by that transition method be decision useful? Please explain why or why not. Is that transition method operable? If not, why not and what transition method would be more appropriate and why?

SIFMA believes that some entities may encounter challenges with retrospective adoption and the cost may exceed the potential benefit to users of financial statements. For example, entities operating in multiple jurisdictions would incur higher costs to implement changes in processes and procedures, systems and controls to compile accurate data from international locations, especially where the process is manual or the more granular information by jurisdiction is tracked in different systems, which may require additional steps to gather and aggregate. Therefore, we recommend the Board allow prospective adoption. If retrospective adoption is required entities will need additional time to prepare for implementation.

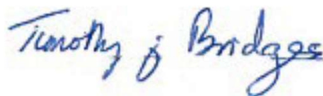
Question 17: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

As noted in our response to Question 16, some entities may face operational challenges that require a longer implementation timeframe. SIFMA believes the amendments should be effective no earlier than January 1, 2026, particularly if retrospective adoption is required.

V. Conclusion

Thank you for the opportunity to comment. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact Andrew Thornburg, Chair of the SIFMA FASB ASU Income Tax Disclosure Improvements Task Force, or the undersigned Timothy Bridges.

Regards,



Timothy Bridges
Chair, SIFMA Accounting Committee
Managing Director, Goldman Sachs & Co. LLC

Appendices:

Appendix A: Effective Tax Rate Reconciliation Gross-up Examples
Appendix B: Illustrative Example of Foreign Operations Gross-Up
Appendix C: Illustrative Example of Tax Credit Gross-Up

CC: Andrew Thornburg
Chair, SIFMA FASB ASU Income Tax Disclosure Improvements Task Force
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Appendix A: Effective Tax Rate Reconciliation Gross-up Examples

Reconciling item	Gross-up issue
Foreign operations	Companies would be required to disclose the impact of foreign operations grossed up across multiple categories. For example, as proposed the rules could require disclosure of: • Taxes on earnings of a UK branch of a US bank included in US Federal Statutory Tax Rate at +21% • Foreign tax effects-UK at +7% (UK 28% rate less 21% US rate) • Effect of cross-border tax laws at +21% (US tax on branch earnings) • Tax credits at -28% (US foreign tax credit reducing US tax) to equal the US Federal Statutory Tax Rate of 21% across the four categories ***See illustrative example in Appendix B***.
Cross-border tax laws	The impacts of a company's GILTI may need to be bifurcated and reported amongst several categories including: • Effect of cross-border tax laws • Tax credits • Non-taxable or non-deductible items When looking at foreign operations, items should be reported net of foreign tax credits (including third-country credits), not gross. The gross-up will make it more difficult for readers to understand the net impact of these items on the effective tax rate. Additionally, disaggregation of GILTI would require further disaggregation of certain items within the Tax credit category – such as separating GILTI and Section 901 credits – otherwise causing the disclosure to be even less informative with respect to GILTI, but on the other hand creating a reconciliation of disregarded foreign entities into the US to be reflected in the Foreign tax effects, Effects of cross border tax laws and Tax credits sections at a minimum. There are other cross-border taxes which would have similar results as GILTI if disaggregation remains required, such as Subpart F, FDII, and BEAT. ***See illustrative example in Appendix B***.

<table>
<tr><th>Reconciling item</th><th>Gross-up issue</th></tr>
<tr><td>Unrecognized tax benefits</td><td>The proposed rules would require disaggregated disclosure of US Federal unrecognized tax benefits (UTBs) as well as individual foreign jurisdictions UTBs if in excess of the 5% threshold by jurisdiction or nature, while state and local UTBs would be included within state and local income taxes, net of federal income tax effect.

Similar proposals were previously considered in Proposed Accounting Standards Update, Income Taxes (Topic 740) issued July 26, 2016, Basis for Conclusions 47 and 48. We continue to disagree with disaggregation of UTBs for the same reasons raised in 2016, including:
Financial statements users stated that the disclosure of aggregate UTBs is sufficient for their analyses,
Disaggregating UTBs by country would provide little benefit because the liability is generally offset by a tax credit, and
Finally, preparers noted that the disclosures would provide taxing authorities with prejudicial information.</td></tr>
<tr><td>Accounting for tax credit investments</td><td>The impacts of tax credit investments, depending on the nature of US GAAP reporting being used, will likely result in disaggregation of the effects of such investments.

For example, the proportional amortization method would need to be separated and reported in several categories including:
Tax credits
Non-taxable or non-deductible items (tax deduction for amortization)
Other adjustments (book amortization)
Separate presentation of these items would make it more difficult for financial statement users to understand the impact of tax credit investments on the effective tax rate.

See illustrative example in Appendix C.</td></tr>
</table>

Reconciling item	Gross-up issue
Valuation allowances	The proposal suggests that changes to the valuation allowance for the country of domicile would be disclosed as a separate line item. However, a valuation allowance for other countries would not be separately disclosed unless it meets the 5% threshold. This raises the concern that reconciling the change in the balance of the valuation allowance disclosed in the rate reconciliation to the change in the balance of the valuation allowance disclosed in the deferred tax assets table would be more complicated.

Appendix B: Illustrative Example of Foreign Operations Gross-Up

Total pre-tax income	6,000,000	
Domestic	3,000,000	
Foreign Corporation - Ireland	2,000,000	
Foreign Branch- UK	1,000,000	
Sub F (included in CFC - Ireland)	400,000	
No permanent differences in any location; state and local taxes are ignored		
Foreign Branch Excess Limit, ability to claim as US foreign tax credit all local taxes paid		
Foreign Branch Statutory Rate		19%
Foreign Corporation Statutory Rate		12%
Total Effective Tax Rate		18%

		Disclosure as Proposed -View 1		Disclosure as Proposed -View 2		Suggested Modification to Proposal (a)		Suggested Modification to Proposal (b)		Suggested Modification to Proposal (c)	
Pre-tax income	6,000,000										
Statutory income tax rate		1,260,000	21%	1,260,000	21%	1,260,000	21%	1,260,000	21%	1,260,000	21%
Foreign tax effects											
Ireland		240,000	4%	(180,000)	-3%	(180,000)	-3%	(180,000)	-3%		
United Kingdom		190,000	3%	(20,000)	0%	(20,000)	0%				
All										(157,600)	-3%
Effect of Cross-boarder tax laws											
GILTI		336,000	6%	336,000	6%	14,400	0%	14,400	0%		
Branch cost				210,000	4%	20,000	0%				
Sub F		84,000	1%	84,000	1%	8,000	0%	8,000	0%		
Tax Credits											
Foreign Tax Credits - GILTI		(153,600)	-3%	(153,600)	-3%	-		-		-	
Foreign Tax Credits - Branch		(190,000)	-3%	(190,000)	-3%						
Foreign Tax Credits - Sub F		(76,000)	-1%	(76,000)	-1%						
Non-Taxable/Non-Deductible Items											
250 Deduction (GILTI)		(168,000)	-3%	(168,000)	-3%	-		-		-	
Non-Taxable Foreign Corp Income		(420,000)	-7%		0%						
Total Tax Expense/Effective Tax Rate		**1,102,400**	**18%**	**1,102,400**	**18%**	**1,102,400**	**18%**	**1,102,400**	**18%**	**1,102,400**	**18%**

Modification to proposal is to allow for netting of foreign tax credits, and portions of cost

(a) shows breakout for local taxes and US tax cost, but elimates further gross-up for foreign tax credits and components of US tax cost

(b) shows breakout for foreign corporation between local tax benefit and US tax cost, branch detail is eliminated as final cost is 21%

(c) shows net tax cost of foreign operations, generally in line with current reporting

View 1

Brings in full foreign tax under foreign tax effects, uses foreign tax credit group to negate the branch foreign cost, uses non-taxable to remove US 21% tax on foreign corporations.

View 2

Adjusts tax effect to local tax rate under foreign tax effects (21% - local rate), brings in US cost on branches separately, uses foreign tax credit group to negate the branch foreign cost.

Appendix C: Illustrative Example of Tax Credit Gross-Up

Total pre-tax income	15,000,000	
Low-income housing tax credits	800,000	accounted for under US GAAP - proportional amortization - in tax line
Low-income housing book amortization	(750,000)	accounted for under US GAAP - proportional amortization - in tax line
Renewable energy Investment tax credits	300,000	accounted for under US GAAP - deferral method - in pre-tax line
Renewable energy production tax credits	250,000	accounted for under US GAAP - flow through method - in tax line
Research and development tax credits	160,000	accounted for under US GAAP - in tax line
All other permanent items are ignored for example		

		Disclosure as Proposed		**Suggested Modification to Proposal**	
Pre-tax income	15,000,000				
Statutory income tax rate		3,150,000	21%	3,150,000	21%
Tax Credits					
Low-income housing tax credits		(800,000)	-5%	(207,500)	-1%
Renewable energy tax credits - deferral		(300,000)	-2%	-	0%
Renewable energy tax credits - flowthrough		(250,000)	-2%	(250,000)	-2%
Research and development tax credits		(160,000)	-1%	(160,000)	-1%
Non-Taxable/Non-Deductible Items					
Low-income housing tax benefit		(157,500)	-1%		
All Other					
Low-income housing book amortization		750,000	5%		
Renewable energy ITC removal		300,000	2%		
Total Tax Expense/Effective Tax Rate		**2,532,500**	**17%**	**2,532,500**	**17%**

LIHTC		
Low-income housing tax credits	(800,000)	a
Low-income housing tax benefit	(157,500)	b
Low-income housing book amortization	750,000	c
Net Benefit	(207,500)	

ITC		
Renewable energy investment tax credits	(300,000)	d
Elimination of renewable energy investment tax credit	300,000	e
Net Benefit	-	

zero benefit in tax line, under deferral method of accounting, benefit is in pre-tax

Modifcation to proposal is to allow for netting of impact by tax credit to more align to US GAAP reporting