



Edison Electric
INSTITUTE



May 31, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

**File Reference No. 2019-500
Disclosure Framework—Changes to the Disclosure
Requirements for Income Taxes**

Dear Mr. Kuhaneck:

The Edison Electric Institute (EEl) and the American Gas Association (AGA) appreciate the opportunity to respond to the Financial Accounting Standards Board's (Board) Proposed Accounting Standards Update (Revised), *Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, File Reference No. 2019-500.

EEl is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEl has more than 60 international electric companies as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEl provides public policy leadership, strategic business intelligence, and essential conferences and forums.

AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

EI and AGA regularly work together on projects that impact the energy utility sector broadly. We appreciate the Board's overall project to improve the effectiveness of disclosures. We support several of the proposed changes in the Exposure Draft, and do not believe they would require significant effort to implement.

However, as explained below, we disagree that certain other proposed changes would necessarily provide more effective, decision-useful information, especially given the volume of income tax disclosures already provided by our member companies. While the prescriptive nature of the proposed disclosures may be beneficial to certain entities, these requirements unnecessarily restrict a financial statement preparer's ability to determine the best manner to communicate relevant information to users of their statements. A less prescriptive, objectives- or principles-based approach would enable preparers to present information in the manner best suited for each company's circumstances.

Specific Responses to Proposed ASU's Questions for Respondents

Question 1: *Would the amendments in this proposed Update that add or modify disclosure requirements 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 support the proposal to eliminate the disclosure requirements related to the estimated range of reasonably possible changes in unrecognized tax benefits balances in the next 12 months and agree that such forward-looking disclosures should be beyond the scope of financial reporting.

We do not support the proposed requirement to disclose changes in the valuation allowance for interim periods. Such disclosure, absent other more detailed disclosure required only on an annual basis, will not provide the holistic picture of an entity's tax position necessary to understand the change in the deferred tax line items. To the extent a change in the valuation allowance is significant for an interim period it will be comprehensively discussed in the Management's Discussion and Analysis and disclosed in the notes to financial statements if it produces a significant variance between income taxes at the statutory rate and effective rate.

We do not support the proposed changes to the disclosure of tax carryforwards. Many tax carryforwards have extended lives, and the proportion of carryforwards expiring over the next five-year period may not be relevant for all companies. The proposed disclosure removes relevant information, the period over which carryforwards expire,

and instead requires disclosure focused on a prescribed timeframe. We believe the current requirement to disclose the tax effect of significant tax carryforwards provides sufficient information to understand changes in the deferred tax line items as well as potential future changes in those amounts. Requiring additional disclosure of the current carryforward before valuation allowances and disaggregated for the next five years will only add to the complexity of income tax disclosure without providing any significant new information and remove information that we understand to be useful to financial statement users.

We do not support the proposed requirement to provide an explanation of year-to-year changes in the amount or percentage of reconciling items in the statutory rate reconciliation. Such explanation is not generally necessary to understand the nature of the line items, which themselves provide the explanation for the difference between income tax expense and statutory expectations, and significant changes in financial results should be discussed in the Management's Discussion and Analysis.

Question 5: *Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?*

No. We agree with the analysis in BC24 regarding the difficulties of disaggregating tax expense for entities with complex structures operating in multiple tax jurisdictions and the potential issues relating to the decision-usefulness of information on a country-level basis. Disclosing income tax expense (or benefit) disaggregated by major tax jurisdiction would require significant costs for entities with complex structures, such as utilities that consolidate state-specific subsidiaries established to operate under multiple state regulatory commissions. In such instances, GAAP tax expense would not be readily available on a state-by-state basis. The existing requirement to disclose tax expense disaggregated only between foreign and domestic tax expense is appropriate.

Question 6: *The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.*

We agree with the use of a 5 percent threshold for the statutory rate reconciliation requirement to be consistent with existing SEC requirements.

May 31, 2019
Mr. Shayne Kuhaneck
Financial Accounting Standards Board
File Reference No. 2019-500
Page 4

Question 10: *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 believe entities should be permitted to adopt the proposed disclosures prospectively and not required to restate prior periods. We believe the current period information is the most relevant and adequate for the needs of financial statement users. Therefore, we do not believe the cost of preparing the proposed new disclosures for prior periods is justified when current period information is available.

Question 11: *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 why.*

We would not generally require an extensive transition period to adopt the standard as the information related to the proposed changes that we support is typically available in our information systems.

* * * * *

EEI and AGA appreciate the opportunity to provide our input on the Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Senior Vice President, Edison Electric Institute

/s/ Matthew Kim

Matthew Kim
Chair, American Gas Association Accounting Advisory Council
Vice President and Gas Utilities Controller of Southern Company Gas