



The Association of
Accountants and
Financial Professionals
in Business

May 6, 2015

Mr. Russell Golden
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2015-200 and 2015-210, Exposure Draft of Proposed Accounting Standards Update (ASU) – *Intra-Entity Asset Transfers and Balance Sheet Classification of Deferred Taxes*

Dear Mr. Golden:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft of Proposed ASUs – *Intra-Entity Asset Transfers and Balance Sheet Classification of Deferred Taxes* (ED).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org in the Advocacy Activity section under the About IMA tab.

We have noted in many of our comment letters to the FASB our concern about the complexity of financial reporting requirements and, in a letter to you dated May 27, 2014, we expressed our support of the Board's Simplification Initiative.

We view the proposal regarding the classification of deferred income taxes as noncurrent as a strong proposal that meets the criteria of the Board's Simplification Initiative including:

- Board deliberations are completed in a relatively short time period;
- the proposal addresses accounting in a narrow and clear scope;
- the proposal provides a clear and simplified accounting principle;
- the proposal contains a pragmatic transition method to ease adoption; and
- the proposal improves or maintains the usefulness of the information reported to investors.

We fully agree with the proposal regarding the classification of deferred income taxes as noncurrent. This approach is a helpful simplification to the preparation of financial statements without any known sacrifice of financial reporting for users. The transition costs to adjust financial reporting models to reflect deferred income taxes as noncurrent are minimal and justified by the elimination of unnecessary judgments and analyses differentiating current and noncurrent deferred income taxes. We agree with the prospective basis transition method to avoid unnecessary complexity related to previously reported financial statements.

Conversely, we do not believe the proposal regarding the accounting for income taxes in intra-entity asset transfers meets the criteria for the Board's Simplification Initiative. We are also not aligned as to the conceptual merit of this proposal.



Within our committee, we struggle to reach consensus on the superior conceptual outcome as this issue straddles income tax and consolidation accounting principles. Our discussions and the Board's previous rule-making in this area confirm that this topic is challenging. We do not believe convergence to IFRS is sufficient on its own as a basis to change the accounting for income taxes in intra-entity asset transfers.

The scope of the intra-entity transfers is broad, addressing an array of transactions including sales of inventory to affiliates, intercompany sales of tangible, long-lived assets and sales of intellectual property in connection with legal restructurings. Sales of inventory to affiliates are common and generally result in near term sales outside the consolidated group. Robust systems and controls are in place to account for these transactions. A change to the accounting for income taxes on sales of inventory to affiliates will be cost-intensive with negligible impact on financial reporting to investors. Given this negligible impact versus the cost of change, we do not support a change for income taxes for intra-entity sales of inventory.

In our experience, intra-entity transfers of long-lived assets and intellectual property are generally infrequent. The accounting for the income taxes for intra-entity transfers of long-lived assets can be complex, but our experience indicates that preparers have designed work processes to manage the impacts. Further, the income tax impact from the transfer of long-lived assets to an affiliate requires judgment regarding the time period to allocate such impact to the provision for income taxes. We do not view this judgment to be particularly difficult as it is comparable to judgment for asset life determination in an opening balance sheet. Finally, many in our Committee have a bias to account for both the underlying intercompany transactions and the tax impacts of those intercompany transactions on the same basis. Treating the before-tax and tax impacts inconsistently requires re-work of internal systems and processes. The inconsistent treatment can also create counterintuitive results and the opportunity to engineer the nature or timing of intercompany transactions to generate an earnings impact.

Further, the proposal creates additional complexity in the accounting for interim tax allocations. Specifically, as an entity prepares its first quarter income tax provision, would the entity forecast expected intra-entity transfers for the remainder of the year? Or would the Board conclude that intra-entity transfers of long-lived assets qualify as "significant unusual items" and, therefore, be excluded from the annual effective tax rate? Would that conclusion be dependent on the frequency of such transactions and whether such types of transactions were germane to the entity's business model?

Based on the diversity of views on the conceptual merits of the proposal, as well as questions as to whether the proposal reduces or creates operational complexity, we do not believe this proposal meets the criteria for a simplification project. We expect that a final ASU on this topic will require more Staff research and Board meetings. We are skeptical whether further effort in this area is the optimal use of Board's resources relative to broader projects to be considered in the upcoming agenda-setting process. Therefore, we believe work on this simplification topic should be discontinued.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "N. Schroeder".

Nancy J. Schroeder, CPA
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