ICBA
INDEPENDENT COMMUNITY BANKERS *of* AMERICA®

February 2, 2018

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

Re: Income Statement—Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

Dear Chairman Golden:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide comment on the exposure draft titled *Income Statement—Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ICBA appreciates the quick action that FASB has taken to address the complexity around adoption of the Tax Cuts and Jobs Act of 2017 and the attention directed toward the multiple burdens faced by community banks as they work to reflect the new effective tax rates in their 2017 financial statements. However, FASB must be sure to pay close attention to the unintended consequences of recording some earnings impacts related to changes in tax law to reported earnings within the income statement while reporting other earnings impacts related to changes in tax law to retained earnings outside of reported earnings. Without appropriate consideration of the impact to the financial statements, community bank stakeholders could easily misinterpret the impact of the tax law change on bank profitability, safety and soundness, and capital adequacy.

[1] The Independent Community Bankers of America®, the nation's voice for nearly 5,700 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. With nearly 52,000 locations nationwide, community banks employ 760,000 Americans, hold $4.9 trillion in assets, $3.9 trillion in deposits, and $3.3 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Exposure Draft

FASB released the exposure draft in response to stakeholder concerns regarding the accounting for changes to effective tax rates stemming from changes in tax law, specifically the adjustment to deferred tax assets and deferred tax liabilities in reported earnings when a tax rate change has occurred even though the original source for recording the deferred tax asset or liability is other comprehensive income. Without an adjustment to accumulated other comprehensive income (AOCI), the balance of AOCI reported net of tax does not show the appropriate tax rate. To correct the balance in AOCI to reflect the correct tax rate, FASB is proposing to require reclassification from AOCI to retained earnings for the tax effects related to the new federal corporate income tax rate. The proposed amendments would be effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within fiscal years. Early adoption would be permitted.

ICBA's Comments

ICBA supports the quick action by FASB to understand stakeholder concerns and seek appropriate resolution to this tax law change in a timely manner. However, a closer look at the solution reveals a very convoluted message to users and preparers of community bank financial statements. The reclassification of AOCI to retained earnings does solve a key community bank problem of regulatory capital depletion. By allowing community banks to adjust AOCI through the common equity tier 1 capital account, banks with gains recorded in retained earnings as a result of this guidance will recapture the lost capital that would otherwise be trapped in AOCI for an extended period in some cases.

However, reported earnings continue to be misrepresented through this change. FASB must work to understand the location of the reclassification as it appears in the financial statements and what message is being sent to stakeholders that are trying to understand why a substantial impact to quarterly profit and loss of the enterprise is not reflected both in regulatory capital and the resulting presentation of the balance sheet. **FASB should correct this oversight by allowing community banks to reclassify the trapped amounts in AOCI directly to reported earnings instead of to retained earnings.** The end result is the same for regulatory capital and the opening balance of retained earnings at the start of the following period. But taking the adjustment directly to reported earnings correctly offsets the impact of the deferred tax item adjustment.

For example, a community bank with investment securities held available-for-sale has an unrealized loss recorded in AOCI, a portion of which has been recorded as a deferred tax asset to reflect the associated tax effects based on the current effective tax rate. As the effective tax rate decreases, the deferred tax asset also decreases to reflect the smaller impact of the tax effect but the offsetting adjustment flows through profit and loss. This

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entry corrects the tax adjustment to the deferred tax item but the AOCI, which is to be presented net of tax effects, continues to reflect the old tax rate. The exposure draft adjusts the AOCI to reflect the current tax effects of the new tax rate but the offsetting entry is to retained earnings directly. This set of entries presents a viable equity and capital position for the new effective tax rate but distorts reported earnings for the period by artificially inflating the tax provision accounts. ICBA is calling for FASB to allow community banks to run the AOCI adjustment not through retained earnings but through reported earnings.

ICBA appreciates your attention to these concerns and the opportunity to provide comments. If you have any questions or would like additional information, please do not hesitate to contact James Kendrick at james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
First Vice President, Accounting and Capital Policy

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