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DEPARTMENT OF ACCOUNTING

AN ANALYSIS OF THE UNREPRESENTED INDUSTRIES IN THE PUSH FOR ACCOUNTING STANDARDS UPDATE NO. 2018-02, INCOME STATEMENT (TOPIC 220)

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ABSTRACT

In 2018, the Financial Accounting Standards Board (FASB) released Accounting Standards Update 2018-02 (ASU 2018-02) —Income Statement—Reporting Comprehensive Income (Topic 220). ASU 2018-02 permits qualifying companies to make one-time reclassifications of income tax effects that are stranded in accumulated other comprehensive income from the tax law change to retained earnings. This update was a response to formal complaints submitted by members of the banking and insurance industries, who believed they were adversely affected by current generally accepted accounting principles on handling the unexpected tax rate change. The effects of this reclassification go beyond the two industries who raised the complaints, bringing to light the lack of response by other sectors. The purpose of this thesis is to use the retained earnings effects of accumulated other comprehensive income, permitted by ASU 2018-02, to show the importance of scrutiny of accounting standards from all industries. By quantifying the effects of this accounting change based on industry sectors and adjusting changes to retained earnings based on a percentage of company sales revenue, I expect to identify all of the sectors that were impacted by the accounting update. By comparing this list to the list of sectors that participated in the drafting of this accounting update, I will highlight the sectors that remained silent during FASB's comment period, a time when company officials are allowed to send in feedback. I will use the changes to retained earnings to defend the position that all companies must actively participate in in the drafting process. Many stakeholders use retained earnings as a benchmark for investment decisions, which is why companies should always be mindful of rule changes that may generate variation.

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Chapter 1

Thesis Objective

This thesis will begin with an exploration of the Tax Cuts and Job Act of 2017. The paper will transition into a discussion on the established accounting procedures that were in place during the tax law change. The feedback from stakeholders will then be discussed, focusing on the specific areas of current accounting procedures that did not accurately reflect companies' financial positions after this tax change. After an in depth discussion on the accounting techniques that are causing the accounting discrepancy, an in-depth look will be made into the Financial Accounting Standards Board's drafting and review process for updating the official rules for accounting procedures. The paper will then analyze the Fortune 500 list, the 500 United States companies with the highest revenues to understand the sector breakdown of those companies who have already adopted the resulting Accounting Standards Update. These findings will be compared to the companies who participated in the drafting of the Accounting Standard Update. This will reveal a discrepancy in those who were active in the drafting period and those who were impacted by the resulting Accounting Standards Update. With the changes to retained earnings experienced by so many of the sampled companies, this thesis highlights the importance of being involved in any accounting standard process that may impact such a widely used metric for investors.

Brief Overview of the Tax Cuts and Job Act of 2017

The United States federal government enacted House Resolution 115-97 (H.R. 115-97), widely referred to as the Tax Cuts and Jobs Act (TCJA) on December 22, 2017 (FASB, 2018a). Formally named An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, this bill was promoted as a simplification for the various complexities of the modern federal tax code ("The Tax Cuts and Job Act", n.d.). This change brought the permanent reduction of the top corporate tax rate from 35% to 21% and the doubling of individuals' standard deductions in lieu of personal exemptions, which were formally suspended from 2018-2025 ("2018 Tax Cuts & Jobs Act Overview", 2018).

There was more to H.R. 115-97 than the effects on firms' tax rates and individuals' exemptions. TCJA had several implications in the realm of accounting and the generally accepted accounting principles (GAAP) (FASB, 2018a). All of these implications related to the difference between the new tax rate and the previous tax rates used to record items in financial statement accounts (FASB, 2018a). Stakeholders were quickly up in arms when they calculated and understood the consequences that would arise from the clash of their accounting practices and this new tax law (FASB, 2018a). Members of the banking and insurance industries took to submitting a total of 11 comments to the Financial Accounting Standard Board (FASB), in an effort to have GAAP updated to account for this drastic change in United States tax laws (FASB, 2018a).

In addition to the 11 unsolicited comments sent to FASB immediately after the TCJA was announced, 55 companies and individuals participated in the official comment period. The list of these 55 participants can be found in Appendix A. The FASB comment period is a time when the general public, any stakeholder in the matter, is allowed to send in their proposed revisions and feedback to Accounting Standards Updates (FASB, n.d.). The Board assess all commentary and proceeds with the adjustments that they believe will provide investors with the most clear and accurate financial information (FASB, n.d.). To guide these comments, FASB asked specific questions such as “Do you agree with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal income tax rate” (“Project: 2018-210”, n.d.). Additionally, FASB asked questions related to the specific procedure and other details surrounding this reclassification process (“Project: 2018-210”, n.d.). Of these 55 stakeholders that submitted commentary to FASB, 89% said that they agreed with the proposed reclassification and 75% offered a recommendation to alter the process (“Project: 2018-210”, n.d.). Peter Gover, representative for First Federal Bank of Louisiana, and one of the respondents to FASB’s comment requests, offered support of the reclassification while offering additional feedback. He said, “while we are pleased that the proposal has addressed the disparity that would have resulted between the tax effects recorded in AOCI and the amounts recorded as DTA/DTL's, we are disappointed that the proposal did not address the income tax effects of the tax rate change that will occur in the current period” (“Project: 2018-210”, n.d.). This captures the true nature of the feedback that the FASB looks for during this drafting period. It is a time for stakeholders to give honest assessments of the proposed Accounting Standards Updates. A majority of feedback received from FASB had similar messages, showing support but also raising concerns for particular portions of the update.

Stranded Tax Effects

The concern of these stakeholders lay with current GAAP (FASB, 2018a). This guidance required companies to adjust their deferred tax liabilities and assets for the effect of changes in tax laws or rates (FASB, 2018a). Essentially, they were required to do this by including the effect on their income from continuing operations during the reporting period of this enactment date (FASB, 2018a). The issue with GAAP at this point arose for items in accumulated other comprehensive income (unrealized holding gains or losses on investments that are classified as available for sale, foreign currency translation gains or losses, pension plan gains or losses, pension prior service costs or credits) that were originally recognized in other comprehensive income but belonged in income from continuing operations (FASB, 2018a; Bragg, 2018). Accumulated other comprehensive income (AOCI) is defined in Appendix B through an example.

The guidance in FASB's Topic 740, Income Taxes, requires deferred tax liabilities and assets to be adjusted for the effects of changes in tax laws or rates (FASB, 2018a). This adjustment was in the form of including the effect in income from continuing operations in the reporting period that the law's enactment took place (FASB, 2018a). The issue arises from GAAP's requirement of charging or crediting the tax effects of items in accumulated other comprehensive income directly to other comprehensive income (FASB, 2018a). A mismatch is created because the net unrealized gain/loss was recorded in accumulated other comprehensive income at the original tax rate, but needs to be updated to reflect the new tax rate (Autry & Stubbs, 2017). Essentially, what stakeholders were worried about were the stranded tax effects not reflecting the appropriate tax rate (FASB, 2018a). Another argument highlighted the consequences in terms of regulatory capital for some banks (FASB, 2018a). By recording those tax effects through income from continuing operations, these tax effects would eventually trickle through retained earnings and potentially create such issues (FASB, 2018a).

Stakeholders proposed that companies should be permitted to backward trace, a method typically prohibited by GAAP, in order to circumvent the issue of stranded tax effects (FASB, 2018a). This would permit companies to recognize the effects of changes in deferred tax amounts in the current year in the same line that the deferred taxes were originally recorded (FASB, 2018a). The FASB recognized the support of being able to backwards trace by the stakeholders during this drafting period, going as far as asking commenters: "should the Board add a broader project on backwards tracing to its active agenda" and "should accounting for the release of stranded tax effects from AOCI be considered in that broader project" ("Project: 2018-210", n.d.). A majority of respondents were in favor of adding these to the FASB's agenda.

Although the FASB was not prepared to permit the usage of backwards tracing to handle the stranded tax effects, they understood the necessity for allowing companies to accurately reflect their financials after the tax change. The main argument used by these stakeholders resided in the assertion that the adjustment of deferred taxes from the reduction of the corporate income tax rate is required to be in income from continuing operations (FASB, 2018a). Therefore, the tax effects of items that are recorded as accumulated other comprehensive income do not reflect the appropriate tax rate. This tax effect, referred to as the stranded tax effects, which will be discussed in more detail later, was the main driver that lead to Accounting Standards Update 2018-02—Income Statement—Reporting Comprehensive Income (Topic 220), referred to as ASU 2018-02 from this point on (FASB, 2018a).

Issued on February 14, 2018, ASU 2018-02 permits companies to reclassify the income tax effects of TCJA in AOCI to retained earnings (PricewaterhouseCoopers, 2018). The effects of ASU 2018-02 are two-fold: to eliminate the stranded tax effects resulting from the clash of the tax change and GAAP and to improve the information quality included in the financial statements (FASB, 2018a). The update permits companies to reclassify any stranded tax effects from TCJA in accumulated other comprehensive income to retained earnings.

During the comment period after this adjustment was announced, some respondents raised concerns over particular complexities and costs of calculating the amount to reclassify (FASB, 2018a). Additionally, the accumulated feedback for the accounting update suggested that the reclassification only provided meaningful financial statement information for some industries (PricewaterhouseCoopers, 2018). During the commentary period, PricewaterhouseCoopers LLP (PwC) raised the concern that “many companies outside of the financial services sectors believe that the reclassification required by the proposed Update will not provide more decision-useful information” (“Project: 2018-210”, n.d.). Later, PwC went on to say that the cost and complexity involved with this type of reclassification calculation exceeded any possible benefit (“Project: 2018-210”, n.d.). This prompted the FASB to grant companies the opportunity to elect this reclassification, therefore not mandating it (FASB, 2018a). Because companies handle accounting for stranded tax effects differently, there was little concern regarding the lack of comparability that would arise from this decision (FASB, 2018a). To reduce financial-statement-user confusion, FASB mandated that companies disclose their reclassification plans (FASB, 2018a). Companies were required to document how they planned to deal with the stranded tax effects found in AOCI (FASB, 2018a). Additionally, if a company elects to reclassify the stranded tax effects, then the disclosure of that reclassification is only required in the period of its adoption (FASB, 2018a).

Updated on March 6, 2018, ASU 2018-02 continued the requirement to describe any accounting policies leading to the release of disproportionate income tax effects from AOCI (PricewaterhouseCoopers, 2018). Although these disclosures are most commonly applied while dealing with available-for-sale securities accounting, this accounting update produces a similar effect on the financial statements (PricewaterhouseCoopers, 2018). For this reason, the FASB determined that companies must make a disclosure if they elect to reclassify (PricewaterhouseCoopers, 2018). If a company does not reclassify the income tax effects of TCJA, then in the period of adoption they must disclose this decision (PricewaterhouseCoopers, 2018). If the company decides to reclassify these tax effects, they must clearly disclose their decision to do so and a description of the tax effects that are being reclassified (PricewaterhouseCoopers, 2018). If a company wished to adopt the new guidance retrospectively, they were required to disclose: the reclassification and why they are doing it, the effects that the adjustment had on previous financial statements, and the line item changes resulting from the reclassification (PricewaterhouseCoopers, 2018).

Although early adoption is permissible, the FASB determined that the amendments to GAAP included in this update would be effective after December 15, 2018 (FASB, 2018a). Public companies wishing to adopt the updates early were allowed to if they had not yet issued financial statements or if their financial statements had not yet been made available for issuance (FASB, 2018a). The FASB concluded that companies were given enough time to reclassify the stranded tax effects to their retained earnings in their 2017 financial statements (FASB, 2018a).

The FASB's decision to permit qualifying companies to reclassify the stranded tax effects offered financial relief created by the tax rate change ("Banks, Insurers Get Relief", 2018). Specifically, companies in the financial sector, who hold significant numbers of available-for-sale securities in their other comprehensive income account, believed that this was a good solution to the stranded tax effects. In a comment submitted to FASB, JPMorgan Chase & Co. said "We believe that the reclassification of the stranded tax effects from AOCI to retained earnings is a good operational solution and provides a more accurate financial statement presentation than current GAAP" ("Project: 2018-210", n.d.). ASU 2018-02 offered relief from reduced earnings and regulatory capital when they recorded the reduction to their deferred tax credits ("Banks, Insurers Get Relief", 2018).

Accumulated Other Comprehensive Income Accounting

Other comprehensive income is a powerful tool that allows a more thorough understanding of a company's net income (Furhmann, 2018). Originally, any changes to a company's profits that could not be attributed to revenue from core operations were allowed to seamlessly flow through to the shareholders' equity portion of the balance sheet (Furhmann, 2018). FASB determined that the most effective way to properly disseminate informative financial information related to a company's profit would be to require the traditional layout of net income along with an extended version called comprehensive income (Spiceland, Sepe, Nelson, & Thomas, 2015, p. 189). Comprehensive income is composed of two parts, net income and other comprehensive income (Spiceland et al., 2015, p. 190). Other comprehensive income is broken down into four main categories of income: net unrealized holding gains (losses) on investments (net of tax), gains associated with retirement benefit plans, deferred gains (losses) from derivatives, and gains (losses) from foreign currency translations (Spiceland et al., 2015, p. 190). The breakdown of other comprehensive income can be found in Appendix C. In a similar fashion to the way that net income is recorded both in its current period form on the income statement and also on a cumulative basis on the balance sheet, other comprehensive income is recorded on the balance sheet as accumulated other comprehensive income (Spiceland et al., 2015, p. 191).

Reclassifications of Stranded Tax Effects

Prior to ASU 2018-02, Accounting Standard Codification (ASC) 740 required deferred tax assets and liabilities to be remeasured subsequent to changes in tax laws (PricewaterhouseCoopers, 2018). This remeasurement was then to be recorded in net income from continuing operations (PricewaterhouseCoopers, 2018). With the TCJA of 2017, companies foresaw that the original deferred tax amount recorded through accumulated other comprehensive income (AOCI) at the original tax rate would remain in AOCI, even though the related tax asset/liability was changed to reflect the lower tax rate (PricewaterhouseCoopers, 2018). Essentially, there would be a disproportionate tax effect in the AOCI (PricewaterhouseCoopers, 2018).

Originally, these adjustments were made based on the effects on income from continuing operations that are generated from the tax law changes (FASB, 2018b). The related tax effects on items that were placed directly into the other comprehensive income account were also included in this guidance. Essentially, situations such as unrealized holding gains and losses of available for sale debt securities, where the income tax effects of items in accumulated other comprehensive income was originally charged to comprehensive income, were encapsulated by this policy (FASB, 2018b).

The guidance is unclear regarding specific methods for calculating tax effects for the various forms of other income (PricewaterhouseCoopers, 2018). In an in-depth analysis of the accounting change, PwC cites a few items that they believe would fall into this category, but warn that different interpretations could alter the list (PricewaterhouseCoopers, 2018). An example of these items are the state tax effects triggered by the repatriation of foreign earnings (PricewaterhouseCoopers, 2018). What is not left up to interpretation, is the idea that if a company chooses to reclassify their stranded tax effects, they cannot pick and choose the items that would be most financial favorable (PricewaterhouseCoopers, 2018). They must reclassify all of the necessary items in AOCI (PricewaterhouseCoopers, 2018).

The complexity from calculating the amount of stranded tax effects for reclassification stems from the numerous sources that can produce disproportionate changes (PricewaterhouseCoopers, 2018). Examples of these sources include: previous changes to tax laws and tax rates outside of TCJA, tax status changes, adjustments to valuation allowances, and the way companies handle gains and losses from available for sale securities (PricewaterhouseCoopers, 2018). The disproportionate tax effect from the final example occurs when instead of being taxed on the realized gains or losses, the company chooses to be taxed on an unrealized basis (PricewaterhouseCoopers, 2018). Here, there would be no reclassification necessary because the tax effect would represent taxes that the company had already paid (PricewaterhouseCoopers, 2018). While determining the reclassification, companies include only the stranded tax effects directly attributed to the TCJA (KPMG, 2019). To calculate this amount, companies reconcile the tax effects on gross deferred tax amounts and the related valuation allowance with the AOCI (KPMG, 2019).

Participation in the Financial Accounting Standards Board's Standard Setting Process

The FASB's primary mission is to establish financial accounting and reporting standards for nongovernmental companies adhering to GAAP ("About the FASB", n.d.). By improving these financial accounting and reporting standards through periodic updates, the FASB strives to ensure the dissemination of useful information to investors and stakeholders from both public and private companies in the United States ("About the FASB", n.d.). Since its founding in 1973, the Board has always supported public participation in their standard-setting process ("Financial Accounting Foundation", 2003). These stakeholders can be any member of the public, including corporations, regulators, trade associations, and investment analysts ("Financial Accounting Foundation", 2003). While its main role consists of ensuring that important financial information is properly reported to investors, the FASB must weigh the costs and benefits of each decision before updating its rule for financial reporting ("Rules of Procedure", 2013).

The FASB's process for adjusting reporting requirements begins with the identification of key financial reporting issues ("Rules of Procedure", 2013). These issues are brought to the Board via unsolicited feedback for agenda topic requests ("Rules of Procedure", 2013). From there, members of the Board research the requested topics and determine which subjects have the merits to be included on their agenda ("Rules of Procedure", 2013). The FASB heavily relies on the participation of stakeholders in order to identify the most pressing issues related to financial reporting ("Rules of Procedure", 2013).

A 1992 study that evaluated the participation levels of FASB's issuing of Statement of Financial Accounting Standards (SFAS) concluded that substantive-type accounting standards produced more overall stakeholder participation (Tandy & Wilburn, 1992). Essentially, as expected, the Accounting Standards Updates that have the greatest breadth of impacted stakeholders, have more participants trying to have their voices heard (Tandy & Wilburn, 1992).

The process leading up to the announcement of ASU 2018-02 contradicts the conclusions made by Tandy and Wilburn. Upon the signing of the 2017 Tax Change and Job Act, only 11 companies, all of whom were from the financial industry, submitted their concerns on stranded tax effects (FASB, 2018a). The diversity of the participants across sectors was very limited. While the financial industry had a large stake in potential unused tax benefits, it was by no means the only industry that would eventually experience the impacts of the Accounting Standards Update. The sectors that experienced the biggest changes to retained earnings from this Accounting Standards Update are highlighted later in this thesis. The main goal of this thesis is to capture this underrepresentation of industries and highlight the importance of participation in the process for setting financial reporting standards and updates.

Chapter 2

Company Selection

The companies used in this analysis come from the 2018 Fortune 500 publication, which can be found in Appendix B. This list contains the 500 largest United States corporations by total revenue for the 2018 fiscal year ("Fortune 500 Companies", n.d.). The Fortune 500 list offers a thorough representation of corporations in America in terms of market share ("Fortune 500 Companies", n.d.). The aggregate financial data composes two-thirds of the United States' gross domestic product (GDP), who collectively capture $12.8 trillion dollars in revenues, with a combined market value of roughly $21.6 trillion ("Fortune 500 Companies", n.d.). Of this list, 42 companies are either privately held, do not have public financial information, or have filed for bankruptcy. This leaves 458 publicly traded companies in my data ("Compustat", 2018). The composition of the 458 companies across sectors is shown in Table 1.

Table 1: Sector List Sampled in Analysis

Industry Sectors	Count of Qualifying Fortune 500 Companies	Percentage of Companies in Sector
Industries	71	15.5%
Health Care	44	9.6%
Materials	28	6.1%
Financials	64	14.0%
Utilities	25	5.5%
Energy	32	7.0%
Information Technology	46	10.0%
Consumer Staples	40	8.7%
Communication Services	19	4.1%
Consumer Discretionary	83	18.1%
Real Estate	6	1.3%
Total	**458**	

Industrial, Financials, and Consumer Discretionary companies are 47.6% of all firms. Only 1.3% of the 458 companies belong to the Real Estate industry. Although there exists a large difference between the most and least populated industries in the list, Consumer Discretionary and Real Estate, steps were taken in the analysis to account for this. We are trying to uncover the sectors from this list that had a sizable average change in accumulated other comprehensive income. Additionally, the overall goal of the argument will not be impacted due to its nature and specific goal.

Early Adoption of Accounting Standards Update 2018-02

The next step in the data grooming process involved searching through the quarterly statements, "10-Qs", filed by the remaining 458 public companies during 2018 ("Compustat", 2018). There is a significant amount of leniency permitted, in terms of the specific wording and location for the disclosure. It was, however, a requirement that a company clearly state their intentions to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income and that they describe those tax effects.

November 25, 2018 was the selected cutoff data for the collection of financial data of the 458 companies analyzed. A consequence of this cutoff is missing third and fourth quarter data for the year. The addition of this information would only strengthen the argument made in this thesis, which will be discussed in the conclusion.

For each of the 458 companies sampled, all of the published quarterly statements for fiscal year 2018 were fully analyzed, by hand. As mentioned above, this data collection was performed on all of the 2018 quarterly statements that were available through the Securities and

Exchange Commission. Key words were searched for in each of these documents to assess a company's intentions to adopt the accounting update and reclassify the income tax effects. Table 2 includes all of the key words and phrases used to search each of the analyzed documents. Due to the limited amount of available fiscal year 2018 quarterlies, it was important to ensure that each of the comprehensive reports were properly reviewed and that no references to the adoption, or recognition, of ASU 2018-02 was missed due to human error in the collection of data.

Table 2: Key Phrases Used to Review 10-Qs

ASU 2018-02
ASU No. 2018-02
Accumulated Other Comprehensive Income
Stranded Tax Effects
Deferred income tax effects
Early Adoption
Reclassified to retained earnings
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02")

Using the key words and phrases to search through the available 2018 quarterly statements for all 458 companies revealed that 218, roughly 48% of these companies referenced ASU 2018-02 to some degree. The companies that mentioned the Accounting Standards Update were further broken down by the contents of the disclosure. For simplification purposes, we look at this adoption from two different perspectives: whether they adopted the reclassification (Early Adoption) or if they are currently evaluating the financial impact of a reclassification (Currently Evaluating). Early adoption means that the company has evaluated the financial effects of the permitted reclassification and have included this reclassification in their financial statements, prior to the January 1, 2019 deadline. Currently evaluating means that the company is still trying to calculate the overall economic impact that this reclassification would have on their company and have not decided if they will move forward with it.

Of these 207 companies that referenced ASU 2018-02 in their quarterly reports, the results were very evenly distributed between early adoption (100 companies) and currently evaluating (107 companies). For this analysis, we will be looking at the 100 companies that adopted the reclassification early.

Chapter 3

Company Analysis

The 100 companies that have already adopted ASU 2018-02 will be the main focus of this analysis. The goal of this analysis will be to explore the effects that ASU 2018-02 had different industry sectors. In a similar fashion to what was performed on the initial 458 public companies on the Forbes list, we begin by dividing the 100 companies by their sectors. Table 3 shows the count breakdown, by sector, for the companies who have already adopted ASU 2018-02. Additionally, the table shows the percentage of companies for each sector from the original list that have already adopted ASU 2018-02.

Table 3: Sector Count of Companies

Industry Sectors	**Early Adopted (a)**	**Count of Qualifying Fortune 500 Companies (b)**	**Percentage of Early Adopters (a)/(b)*100**
Industries	18	71	25.4%
Health Care	12	44	27.3%
Materials	4	28	14.3%
Financials	19	64	29.7%
Utilities	6	25	24.0%
Energy	7	32	21.9%
Information Technology	9	46	19.6%
Consumer Staples	7	40	17.5%
Communication Services	4	19	21.1%
Consumer Discretionary	13	83	15.7%
Real Estate	1	6	16.7%
Total	**100**	**458**	**21.8%**

Table 3 illustrates that more than one-fifth of the public companies listed on the Fortune 500 list have already adopted and reclassified the stranded tax effects from their accumulated other comprehensive income accounts into retained earnings. Paired with the companies that are currently evaluation the materiality of the reclassification, this list of companies is a strong base for illustrating just how many industries were impacted by this accounting change.

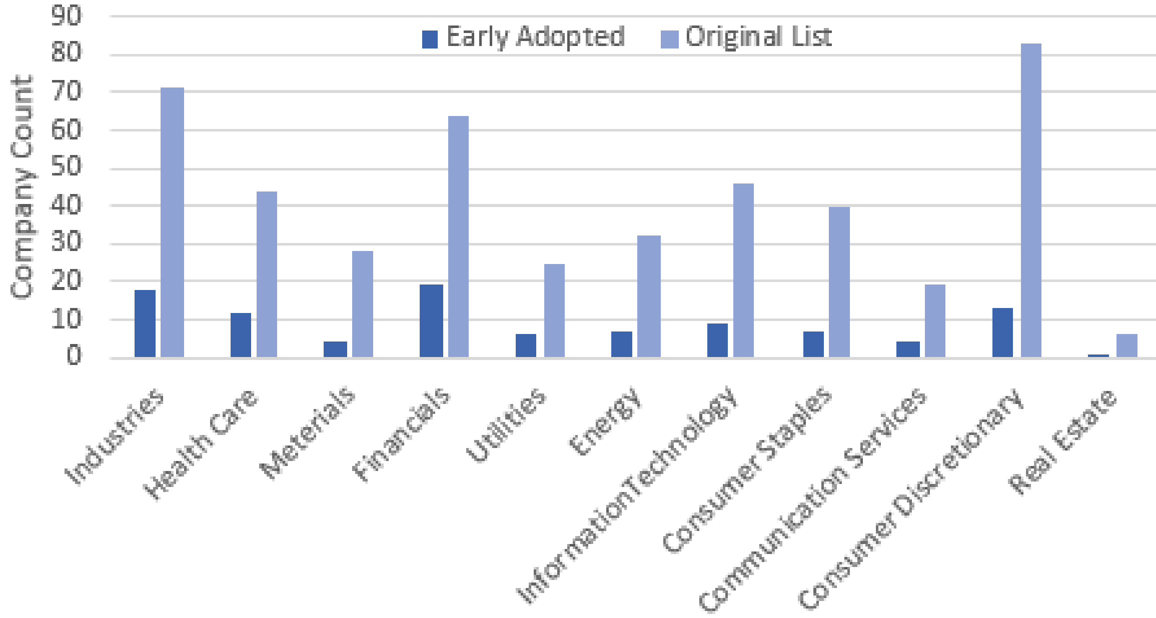


Figure 1. Count of Early Adopted Companies vs. Original List

While Figure 1 gives the impression that only small fractions of each sector have opted to reclassify, the pairing with Table 3 paints a picture of an increasing list of companies. The calculations in Table 3 reveal how evenly divided the companies that early adopted the reclassification are across the 11 sectors. The horizontal shape that is formed by this graph represents the fact that for each individual sector, roughly the same percentage of companies early adopted this ability to reclassify the stranded tax effects. This is a key finding for our analysis because it begins to shows that it wasn't just the Financials sector who experienced impacts from the Accounting Standards Update.

Table 3 also shows how many companies per sector have adopted the reclassification early. This is included to reveal a few of the sectors where there is limited data to perform analysis on. These sectors include Materials, Consumer Discretionary, and Real Estate. While we will not fully remove them from our analysis, it is important to not rely too heavily on the average changes to retained earnings that will be computer later.

The next step of the analysis will look at the size of the reclassifications experienced by these 100 companies that chose to adopt ASU 2018-02 during the time period under investigation. Table 4 illustrates the gross change in retained earnings produced by the reclassification of the stranded tax effects. Additionally, for all of the companies that opted to reclassify their stranded tax effects, Table 4 illustrates the average reclassification per sector as a way to further dissect the industries that saw the largest changes from the Accounting Standards Update ("Compustat", 2018).

Table 4: Gross Change to Retained Earnings per Sector from Reclassification ("Compustat", 2018)

Industry Sectors	Retained Earnings Change from ASU 2018-02 Reclassification ($ in millions)	Average Change to Retained Earnings Per Early Adopting Company ($ in millions)	Retained Earnings Change Normalized by Total Revenue
Industries	5,447.7	302.7	20.81%
Health Care	984.9	82.1	4.36%
Materials	1,142.9	285.7	0.50%
Financials	3,031.8	159.6	3.72%
Utilities	589.3	98.2	5.79%
Energy	237.0	33.9	1.94%
Information Technology	229.2	25.5	5.83%
Consumer Staples	671.5	95.9	2.36%
Communication Services	449.3	112.3	0.33%
Consumer Discretionary	240.8	18.5	10.70%
Real Estate	253.0	253.0	0.00%
Total	**13,277.4**		

From Table 4, it is abundantly clear that Financials was not the only sector to experience significant changes to retained earnings based on the reclassification. Industries, Health Care, and Materials, also experienced significant changes in terms of gross change to retained earnings from the reclassification. Additionally, based on the average change per company from the list of early adopters, Communications and Consumer Staples also stand out as having experienced significant changes to their retained earnings. Table 4 clearly illustrates the Industries sector's dominance in terms of gross changes to retained earnings from the reclassification and illustrates the average change to retained earnings that each company experienced from the early adopters. This supports the concept that other sectors outside of Financials experienced significant changes to retained earnings from ASU 2018-02.

Table 4 also normalizes the change in retained earnings based on total revenue. This calculation was performed by dividing each early adopting company's change in retained earnings by the total revenue of the company. This normalization was performed in order to account for company size and see how much of a change to retained earnings each sector experienced from the reclassification. From the normalized data, it appears that the industries and Consumer Discretionary sectors experienced the largest change in retained earnings as a percentage of its total revenue. The Financials sector was not in the top 5 for the normalized change to retained earnings. This is more evidence that firms outside the Finance sector should have been participating in the commentary period.

Although the gross changes to these accounts by sector is important, it is also important to understand the retained earnings changes on a company level. This information is captured in Appendix B, where each sector is broken down into the retained earnings changes for each individual company. The figures included in the appendix bring to light the large spread within the data of changes to retained earnings.

FASB Comment Period Participants

Fifty-five companies participated in the FASB's official comment period for ASU 2018-02. These companies gave solicited feedback about the reclassification of stranded tax effects and are listed in Appendix A. Table 5 shows the breakdown of these participants by sector. Most of these participants came from the Financials sector with 11 financial companies reaching out to the FASB and requesting an update be made to current GAAP procedures.

Table 5: Comment Period Participants

Industry Sectors	Number of Comment Period Participants	Percentage of Total Comment Period Participation
Financials	51	92.7%
Energy	2	3.6%
Consumer Staples	1	1.8%
Communication Services	1	1.8%
Total	**55**	

This shows that the Financials sector was the force behind ASU 2018-02. Banks, advisors, and associations were active participants trying to ensure that the FASB adopted a new accounting procedure that would be most beneficial to all stakeholders.

Of the 55 participants in the FASB's comment period, 16 of those companies were listed in the Fortune 500 list. These particular companies are marked with an asterisk in Appendix A. Table 6 shows the sector breakdown of the Fortune 500 companies that participated in the comment period. As expected from the original breakdown of the participants, a majority of these companies were from the Financials sector.

Table 6: Comment Period Participants from Fortune 500 List

Industry Sectors	**Number of Comment Period Participants From Fortune 500 List**	**Percentage of Total Comment Period Participation from Fortune 500 List**
Financials	12	75.00%
Energy	2	12.50%
Communication Services	1	6.25%
Consumer Staples	1	6.25%
Total	**16**	

Figure 2 represents the size distribution of the companies from the Fortune 500 list, based on revenue. The smallest company by revenue aligns with the smallest percentage in the distribution and the largest company aligns with the largest. The companies that participated in the comment period are highlighted in red. This graph highlights the sizes of the companies that participated in the FASB comment period, but more importantly, it reveals a skew to the left in terms of revenue. Companies that participated in the comment period tended to be large in terms of revenue. This skewed size data raises new questions regarding the role that a company's size plays in the decision to participate in the comment period. What are the financial reasons that these 16 participants, specifically, that drove these particular companies to comment on the draft of ASU 2018-02.

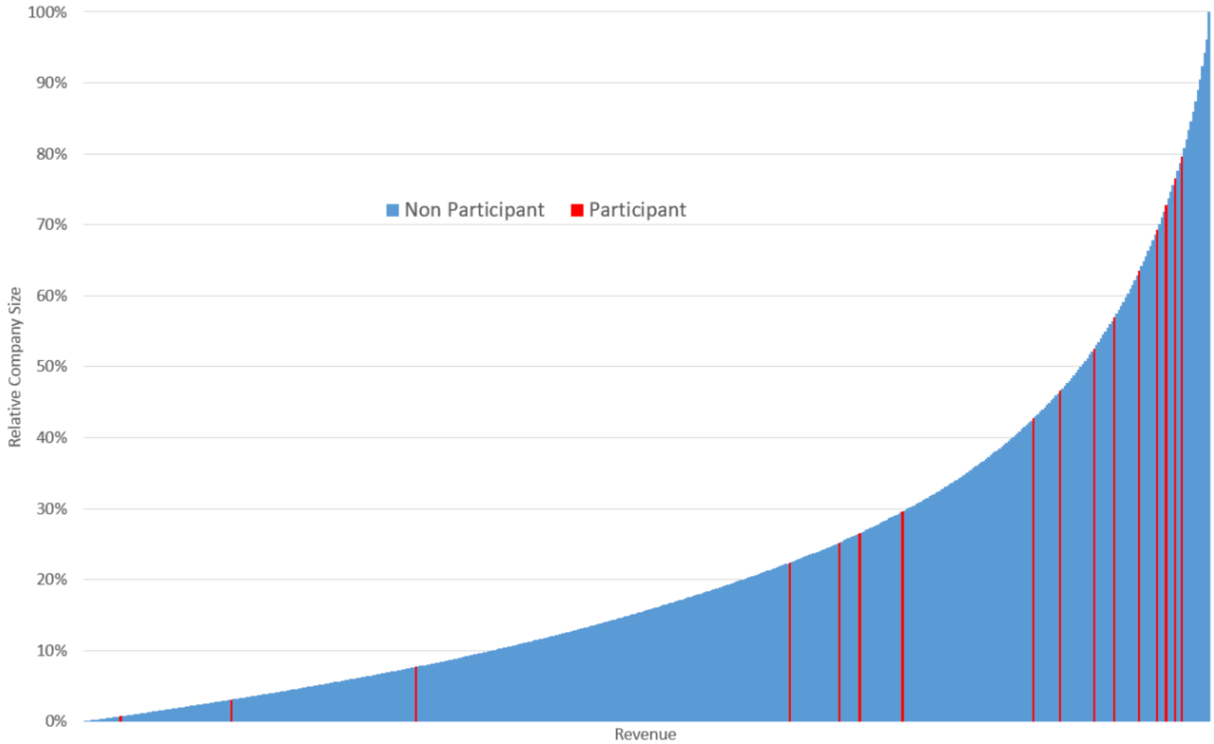


Figure 2. Participation in Comment Period Based on Company Size (from Fortune 500 list)

Chapter 4

Conclusion

Of the 55 stakeholders who participated in the FASB comment period, 92.7% were related to the Financials sector. Only four companies outside of that sector were active participants during the process. These companies were the only ones that participated in the drafting period of an accounting change that would produce a $13.3 billion gross change in retained earnings, calculated during the time of this research. Of this $13.3 billion, $10.3 billion of this change occurred outside of the Financials sector ("Compustat", 2018). Appendix E includes all of the changes to retained earnings resulting from the reclassification. There are several companies with over a billion dollars in changes to retained earnings that did not participate in the FASB's comment period. Although many companies experienced changes to retained earnings from the reclassification, the majority of the comment period participants were financial companies.

These changes to retained earnings only encompass the reclassifications of the early adopters as of the November 25, 2018 cutoff date for this thesis. ASU 2018-02 permitted companies to wait until December 15, 2019 to make the decision of reclassification (FASB, 2018a). This means the remaining 358 non-adopters still have the potential to change retained earnings. This inevitable growth supports the increasing significance of this Accounting Standards Update. As it affects more companies, it will illustrate how far reaching these Accounting Standards Updates can be in nature. Therefore, this would affirm the importance of representation for all sectors in the drafting of these accounting rules.

A significant portion of the feedback received by the FASB during the comment period of the Accounting Standards Update process supported FASB's efforts in creating the reclassification for companies. Along with the support, 75% of the 55 participating companies presented FASB with feedback and alterations to the original version of the update. As stated previously, FASB takes into consideration all of the feedback received from stakeholders during the commentary period of the process in order to produce the most effective and broadly representative Accounting Standards Update possible.

By not participating in this process, a majority of companies, and sectors, waived their ability to give input in a decision that impacted their retained earnings. My research highlights the need for all companies to play an active role in the FASB's process for drafting Accounting Standards Updates. Without full participation, or representation from all sectors, the potential for unfavorable outcomes increases. Retained earnings are an important metric for investors, which means that companies should work to prevent any Accounting Standards Updates that might unfairly hurt this account on their books. To do this, stakeholders from all sectors must play an active role in the comment period that the FASB offers during the drafting period of all Accounting Standards Updates.

Future Research

The next step in this process will involve calculating the overall change to retained earnings from the reclassification permitted by ASU 2018-02. Companies were permitted to elect this reclassification up to January 1, 2019, so the 10-Q and 10-K financial reports, published by the Securities and Exchange Commission, that include this date will contain the disclosures and changes to retained earnings. It is at this point that the full effect of the accounting change can be understood. Additionally, the full sector breakdown will be visible and will illustrate which sectors experienced the greatest change to retained earnings.

Beyond the analysis that was performed in this thesis, there are many other directions that analysis of ASU-2018-02 can go. It was mentioned by a member of the Accounting Standards Update's opposition, PricewaterhouseCoopers, that the guidance is unclear regarding the specific methods for calculating tax effects for the various forms of other income. One example on the list of possible items that they believe could be interpreted and recorded differently, includes state tax effects that are triggered by the deemed mandatory repatriation of foreign earnings. Future analysis could explore variations in company interpretations for the reclassification similar stranded tax effects.

Additionally, when all of the companies have made their decisions regarding reclassification, an analysis can be performed on the similar attributes between companies that elected to reclassify and those that did not. This analysis will strengthen the understanding of why financial companies were pushing so hard for the Accounting Standards Update and highlight why other sectors might not have realized the implications of such a change. In order to perform this analysis, each company's accumulated other comprehensive income accounts would be broken into its individual components (unrealized gains and losses on investments, gains or losses on pension funds, and foreign currency translations). Essentially, this analysis would create a function using these financials to try to understand the financial position that would drive a company to be an active participant in the FASB comment period.

Appendix A

FASB Comment Period Participants

AFLAC INC**
ALLIANCE OF STATE BANKERS ASSOCIATIONS
ALLSTATE CORP**
AMERICAN BANKERS ASSOCIATION
AMERICAN COUNCIL OF LIFE INSURERS
AMERICAN FINANCIAL GROUP INC
BAKER NEWMAN & NOYES LLC
BANK OF AMERICA CORP**
BDO USA LLP
BERRY DUNN MCNEIL & PARKER LLC
BRIGGS & VESELKA
CFA INSTITUTE
CHEVRON CORP*
CINCINNATI FINANCIAL CORP**
CITIGROUP INC**
CITIZENS FINANCIAL GROUP INC**
COMERICA INC
CROWE HORWATH LLP
CURTINS CONSULTING LTD
DELOITTE & TOUCHE LLP
ERNST YOUNG LLP
FARM CREDIT PARTNERS INC
FBL FINANCIAL GROUP INC
FINANCIAL EXECUTIVES INTERNATIONAL
FIRST FEDERAL BANK OF LOUISIANA
FREDDIE MAC
GRANT THORNTON LLP
ILLINOIS CPA SOCIETY
INDEPENDENT COMMUNITY BANKERS OF AMERICA
JAMES MYERS
JONESBORO STATE BANK
JPMORGAN CHASE & CO**
KPMG LLP
MASSACHUSETTS BANKERS ASSOCIATION
METLIFE INC**
MISSOURI SOCIETY OF CPA'S
MORGAN STANLEY**
NATIONAL BANK OF SCOTIA
NORWAY SAVINGS BANK
PNC FINANCIAL SVCS GROUP INC**
PRICEWATERHOUSECOOPERS LLP
PRUDENTIAL FINANCIAL INC**
REGIONS FINANCIAL CORPORATION
ROBINSON HUGHES & CHRISTOPHER
RSM US LLP
SIFMA
T. E. LOTT & CO
THE AMERICAN INSITITUTE OF CPAS
THE ASSOCIATION OF ACCOUNTANTS AND FINANCIAL PROFESSIONALS IN BUSINESS
THE CALIFORNIA SOCIETY OF CPA'S
THE GOODYEAR TIRE & RUBBER COMPANY*
THE HARTFORD FINANCIAL SERVICES GROUP INC.**
THE TRAVELERS COMPANIES INC.
THE WILLIAMS COMPANIES INC.*
VERIZON COMMUNICATIONS INC*

* Represents a non-financial company on the Fortune 500 list

** Represents a financial company on the Fortune 500 list

Appendix B

Accumulated Other Comprehensive Income Example

The following example comes from the PricewaterhouseCoopers' in depth response to the stranded tax effects in AOCI resulting from the tax law change (PricewaterhouseCoopers, 2018). This example is based on a simple business combination and uses a few techniques from acquisition accounting (PricewaterhouseCoopers, 2018). Disclaimer: the numbers from PricewaterhouseCoopers' example have been altered, but the underlying example belongs to the contributors of the publication.

<u>Example:</u> Stranded tax effects for available-for sale securities (AFS)

In the third quarter of 2017, Company A wishes to acquire Company B, a company whose entire holdings is composed of one AFS debt security with a fair value of $90,000. The tax basis for this security is $75,000.

Fair Value of AFS		$90,000
- Tax Basis	-	<u>$75,000</u>
	=	$15,000

The $15,000 difference is recorded by Company B, using the original 35% tax rate, as a deferred tax liability of $5,250 ($15,000*35%). Prior to the tax law change, the fair value of this security decreases from $90,000 to $80,000. Company A debits $10,000 to AOCI and credits the $3,500 ($10,000*35%) tax benefit. Before the tax law change, deferred tax liability relating to the AFS security is $1,750 ($5,250-$3,500).

Fair Value of AFS		$80,000
- Tax Basis	-	$75,000
	=	$5,000

When the tax law change is introduced, and the new corporate tax rate changes to 21%, current GAAP accounting rules requires the reduction of deferred tax liability to $1,050 ($5,000*21%). This is how the companies were originally required to record the effects on continuing operations resulting from the change in the tax law.

ASU 2018-02 permits a one-time reclassification of the stranded tax effects caused by the 14% change in the tax rate. Company A could elect to reclassify $1,400 ($15,000*14%), the amount of the stranded tax effect in the AOCI account.

Appendix C

Accumulated Other Comprehensive Income Accounting

Net Income		$2,000
Other Comprehensive Income		
Net unrealized holding gains (losses) on investments (net of tax)	$15	
Gains (losses) from the amendments to postretirement benefit plans (net of tax)	(13)	
Deferred gains (losses) from derivatives (net of tax)	(10)	
Gains (losses) from foreign currency translation (net of tax)	5	(3)
Comprehensive income		$1,997

*This breakdown of comprehensive income comes from *Intermediate Accounting*, written by Speceland, Sepe, Nelson, and Thomas.*

Appendix D

The 458 Publicly Traded Companies from the Fortune 500 List

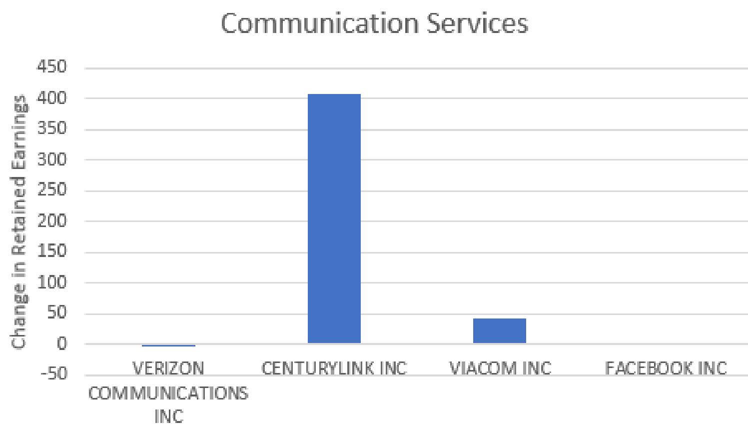
3M CO
ABBOTT LABORATORIES
ABBVIE INC
ABM INDUSTRIES INC
ACTIVISION BLIZZARD INC
ADOBE INC
ADVANCE AUTO PARTS INC
AECOM
AES CORP
AETNA INC
AFLAC INC
AGCO CORP
AIR PRODUCTS & CHEMICALS INC
AK STEEL HOLDING CORP
ALASKA AIR GROUP INC
ALCOA CORP
ALLEGHANY CORP
ALLIANCE DATA SYSTEMS CORP
ALLSTATE CORP
ALLY FINANCIAL INC
ALTRIA GROUP INC
A-MARK PRECIOUS METALS INC
AMAZON.COM INC
AMEREN CORP
AMERICAN AIRLINES GROUP INC
AMERICAN AXLE & MFG HOLDINGS
AMERICAN ELECTRIC POWER CO
AMERICAN EXPRESS CO
AMERICAN FINANCIAL GROUP INC
AMERICAN INTERNATIONAL GROUP
AMERICAN TOWER CORP
AMERIPRISE FINANCIAL INC
AMERISOURCEBERGEN CORP
AMGEN INC
AMPHENOL CORP
AMTRUST FINANCIAL SERVICES
ANADARKO PETROLEUM CORP
ANDEAVOR LOGISTICS LP
ANIXTER INTL INC
ANTHEM INC
APACHE CORP
APPLE INC
APPLIED MATERIALS INC
ARAMARK
ARCHER-DANIELS-MIDLAND CO
ARCONIC INC
ARROW ELECTRONICS INC
ARTHUR J GALLAGHER & CO
ASBURY AUTOMOTIVE GROUP INC
ASCENA RETAIL GROUP INC
ASSURANT INC
ATLANTIC POWER CORP
AUTOLIV INC
AUTOMATIC DATA PROCESSING
AUTONATION INC
AUTOZONE INC
AVERY DENNISON CORP
AVIS BUDGET GROUP INC
AVNET INC
AVON PRODUCTS
FISERV INC
FLUOR CORP
FOOT LOCKER INC
FORD MOTOR CO
BALLARD POWER SYSTEMS INC
BANK OF AMERICA CORP
BANK OF NEW YORK MELLON CORP
BAXTER INTERNATIONAL INC
BB&T CORP
BECTON DICKINSON & CO
BED BATH & BEYOND INC
BERKLEY (W R) CORP
BERRY GLOBAL GROUP INC
BEST BUY CO INC
BIOGEN INC
BLACKROCK INC
BLACKSTONE GROUP LP
BOEING CO
BOOKING HOLDINGS INC
BOOZ ALLEN HAMILTON HLDG CP
BORGWARNER INC
BOSTON SCIENTIFIC CORP
BRISTOL-MYERS SQUIBB CO
BUILDERS FIRSTSOURCE
BURLINGTON STORES INC
C H ROBINSON WORLDWIDE INC
CAMPBELL SOUP CO
CAPITAL ONE FINANCIAL CORP
CARDINAL HEALTH INC
CARMAX INC
CASEYS GENERAL STORES INC
CATERPILLAR INC
CBRE GROUP INC
CBS CORP
CDW CORP
CELANESE CORP
CELGENE CORP
CENTENE CORP
CENTERPOINT ENERGY INC
CENTURYLINK INC
CHARTER COMMUNICATIONS INC
CHEMOURS CO
CHENIERE ENERGY INC
CHESAPEAKE ENERGY CORP
CHEVRON CORP
CHICOS FAS INC
CIGNA CORP
CINCINNATI FINANCIAL CORP
CINTAS CORP
CISCO SYSTEMS INC
CITIGROUP INC
CITIZENS FINANCIAL GROUP INC
CLOROX CO/DE
CMS ENERGY CORP
COCA-COLA CO
COGNIZANT TECH SOLUTIONS
COLGATE-PALMOLIVE CO
COMCAST CORP
COMMUNITY HEALTH SYSTEMS INC
CONAGRA BRANDS INC
CONDUENT INC
CONOCOPHILLIPS
CONSOLIDATED EDISON INC
CONSTELLATION BRANDS
JPMORGAN CHASE & CO
KELLOGG CO
KEYCORP
KIMBERLY-CLARK CORP
CORE MARK HOLDING CO INC
CORNING INC
COSTCO WHOLESALE CORP
COTY INC
CROWN HOLDINGS INC
CSX CORP
CUMMINS INC
CVS HEALTH CORP
D R HORTON INC
DANA INC
DANAHER CORP
DARDEN RESTAURANTS INC
DAVITA INC
DCP MIDSTREAM LP
DEAN FOODS CO
DEERE & CO
DELEK US HOLDINGS INC
DELTA AIR LINES INC
DEVON ENERGY CORP
DICKS SPORTING GOODS INC
DILLARDS INC -CL A
DISCOVER FINANCIAL SVCS
DISCOVERY INC
DISH NETWORK CORP
DISNEY (WALT) CO
DOLLAR GENERAL CORP
DOLLAR TREE INC
DOMINION ENERGY INC
DONNELLEY (R R) & SONS CO
DOVER CORP
DOWDUPONT INC
DTE ENERGY CO
DUKE ENERGY CORP
DXC TECHNOLOGY COMPANY
EASTMAN CHEMICAL CO
EBAY INC
ECOLAB INC
EDISON INTERNATIONAL
EMCOR GROUP INC
EMERSON ELECTRIC CO
ENTERGY CORP
ENTERPRISE PRODS PRTNRS -LP
EOG RESOURCES INC
ERIE INDEMNITY CO -CL A
EVERSOURCE ENERGY
EXELON CORP
EXPEDIA GROUP INC
EXPEDITORS INTL WASH INC
EXPRESS SCRIPTS HOLDING CO
EXXON MOBIL CORP
FACEBOOK INC
FEDERAL HOME LOAN MORTG CORP
FEDEX CORP
FIDELITY NATIONAL INFO SVCS
FIDELITY NATL FINL FNF GROUP
FIFTH THIRD BANCORP
FIRST AMERICAN FINANCIAL CP
FIRST DATA CORP
FIRST WSTRN FINNCIL INC
FIRSTENERGY CORP
NEXTERA ENERGY INC
NGL ENERGY PARTNERS LP
NIKE INC
NORDSTROM INC

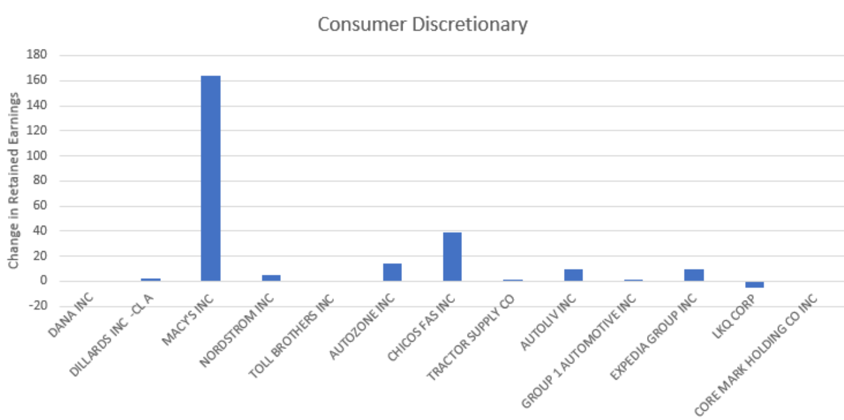
FORTIVE CORP
FRANKLIN RESOURCES INC
FREEPORT-MCMORAN INC
FRONTIER COMMUNICATIONS CORP
GAMESTOP CORP
GAP INC
GENERAL DYNAMICS CORP
GENERAL ELECTRIC CO
GENERAL MILLS INC
GENERAL MOTORS CO
GENUINE PARTS CO
GENWORTH FINANCIAL INC
GILEAD SCIENCES INC
GLOBAL PARTNERS LP
GOLDMAN SACHS GROUP INC
GOODYEAR TIRE & RUBBER CO
GRAINGER (W W) INC
GROUP 1 AUTOMOTIVE INC
HALLIBURTON CO
HANESBRANDS INC
HARLEY-DAVIDSON INC
HARRIS CORP
HARTFORD FINANCIAL SERVICES
HCA HEALTHCARE INC
HD SUPPLY HOLDINGS INC
HELMERICH & PAYNE
HERSHEY CO
HERTZ GLOBAL HOLDINGS INC
HEWLETT PACKARD ENTERPRISE
HILTON WORLDWIDE HOLDINGS
HOLLYFRONTIER CORP
HOME DEPOT INC
HONEYWELL INTERNATIONAL INC
HORMEL FOODS CORP
HUMANA INC
HUNT (JB) TRANSPRT SVCS INC
HUNTINGTON INGALLS IND INC
HUNTSMAN CORP
ICAHN ENTERPRISES LP
IHEARTMEDIA INC
ILLINOIS TOOL WORKS
INGREDION INC
INSIGHT ENTERPRISES INC
INTEL CORP
INTERCONTINENTAL EXCHANGE
INTERPUBLIC GROUP OF COS
INTL BUSINESS MACHINES CORP
INTL FCSTONE INC
INTL PAPER CO
IQVIA HOLDINGS INC
JABIL INC
JACOBS ENGINEERING GROUP INC
JEFFERIES FINANCIAL GRP INC
JETBLUE AIRWAYS CORP
JOHNSON & JOHNSON
JONES LANG LASALLE INC
KINDER MORGAN INC
KKR & CO INC
KRAFT HEINZ CO
KROGER CO
L BRANDS INC
L3 TECHNOLOGIES INC
LABORATORY CP OF AMER HLDGS
LAM RESEARCH CORP
LAS VEGAS SANDS CORP
LAUDER (ESTEE) COS INC -CL A
LEAR CORP
LEIDOS HOLDINGS INC
LENNAR CORP
LIFEPOINT HEALTH INC
LILLY (ELI) & CO
LINCOLN NATIONAL CORP
LITHIA MOTORS INC -CL A
LIVE NATION ENTERTAINMENT
LKQ CORP
LOCKHEED MARTIN CORP
LOEWS CORP
LOWE'S COMPANIES INC
M & T BANK CORP
MACY'S INC
MAGELLAN HEALTH INC
MANPOWERGROUP
MARATHON PETROLEUM CORP
MARKEL CORP
MARRIOTT INTL INC
MARSH & MCLENNAN COS
MASCO CORP
MASTEC INC
MASTERCARD INC
MCDONALD'S CORP
MCKESSON CORP
MERCK & CO
METLIFE INC
MGM RESORTS INTERNATIONAL
MICRON TECHNOLOGY INC
MICROSOFT CORP
MOHAWK INDUSTRIES INC
MOLINA HEALTHCARE INC
MOLSON COORS BREWING CO
MONDELEZ INTERNATIONAL INC
MORGAN STANLEY
MOSAIC CO
MOTOROLA SOLUTIONS INC
MURPHY USA INC
NATIONAL OILWELL VARCO INC
NAVISTAR INTERNATIONAL CORP
NCR CORP
NETAPP INC
NETFLIX INC
NEWELL BRANDS INC
NEWMONT MINING CORP
NEWS CORP
NORFOLK SOUTHERN CORP
NORTHERN TRUST CORP
NORTHROP GRUMMAN CORP
NRG ENERGY INC
NUCOR CORP
NVIDIA CORP
NVR INC
OCCIDENTAL PETROLEUM CORP
OFFICE DEPOT INC
OLD REPUBLIC INTL CORP
OLIN CORP
OMNICOM GROUP
ON SEMICONDUCTOR CORP
ONEOK INC
ORACLE CORP
O'REILLY AUTOMOTIVE INC
OSHKOSH CORP
OWENS CORNING
OWENS-ILLINOIS INC
PACCAR INC
PACKAGING CORP OF AMERICA
PARKER-HANNIFIN CORP
PATTERSON COMPANIES INC
PAYPAL HOLDINGS INC
PBF ENERGY INC
PEABODY ENERGY CORP
PENNEY (J C) CO
PENSKE AUTOMOTIVE GROUP INC
PEPSICO INC
PERFORMANCE FOOD GROUP CO
PFIZER INC
PHILIP MORRIS INTERNATIONAL
PHILLIPS 66
PIONEER NATURAL RESOURCES CO
PLAINS GP HOLDINGS LP
PNC FINANCIAL SVCS GROUP INC
POLARIS INDUSTRIES INC
PPG INDUSTRIES INC
PPL CORP
PRINCIPAL FINANCIAL GRP INC
PROCTER & GAMBLE CO
PROGRESSIVE CORP-OHIO
PRUDENTIAL FINANCIAL INC
PUBLIC SERVICE ENTRP GRP INC
PULTEGROUP INC
PVH CORP
QUALCOMM INC
QUANTA SERVICES INC
QUEST DIAGNOSTICS INC
QURATE RETAIL INC
RALPH LAUREN CORP
RAYMOND JAMES FINANCIAL CORP
RAYTHEON CO
REALOGY HOLDINGS CORP
REGENERON PHARMACEUTICALS
REGIONS FINANCIAL CORP
REINSURANCE GROUP AMER INC
RELIANCE STEEL & ALUMINUM CO
REPUBLIC SERVICES INC
RITE AID CORP
ROCKWELL AUTOMATION
ROCKWELL COLLINS
ROSS STORES INC
RYDER SYSTEM INC
S&P GLOBAL INC
SALESFORCE.COM INC
SANMINA CORP
SCHEIN (HENRY) INC
SCHWAB (CHARLES) CORP
SEABOARD CORP
SEALED AIR CORP
SEARS HOLDINGS CORP
SEMPRA ENERGY
SHERWIN-WILLIAMS CO
SIMON PROPERTY GROUP INC
SMUCKER (JM) CO
SONIC AUTOMOTIVE INC -CL A
SOUTHERN CO
SOUTHWEST AIRLINES
SPARTANNASH CO
SPECTRUM BRND HLDG INC
SPIRIT AEROSYSTEMS HOLDINGS
STANLEY BLACK & DECKER INC
STARBUCKS CORP
STATE STREET CORP
STEEL DYNAMICS INC
STRYKER CORP
SUNTRUST BANKS INC
SYNCHRONY FINANCIAL
SYNNEX CORP
SYSCO CORP
TARGA RESOURCES CORP
TARGET CORP
TECH DATA CORP
TENET HEALTHCARE CORP
TENNECO INC
TESLA INC
TEXAS INSTRUMENTS INC
TEXTRON INC
THERMO FISHER SCIENTIFIC INC
THOR INDUSTRIES INC

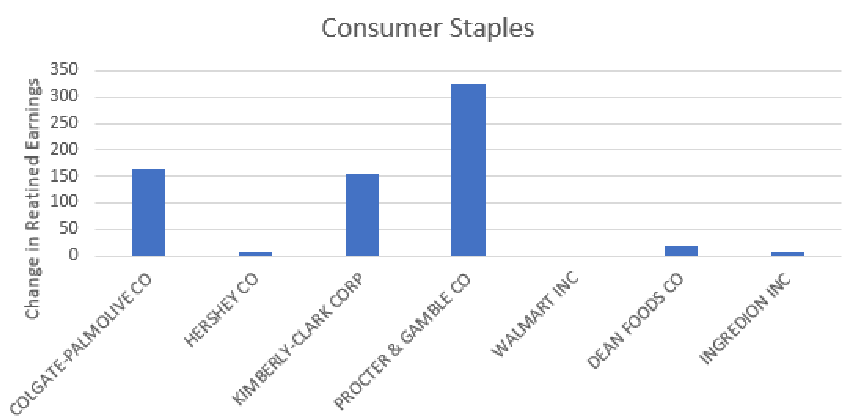
TJX COMPANIES INC
TOLL BROTHERS INC
TRACTOR SUPPLY CO
TRAVELCENTERS OF AMERICA LLC
TREEHOUSE FOODS INC
TYSON FOODS INC -CL A
U S BANCORP
UGI CORP
ULTA BEAUTY INC
UNION PACIFIC CORP
UNITED CONTINENTAL HLDGS INC
UNITED NATURAL FOODS INC
UNITED PARCEL SERVICE INC
UNITED RENTALS INC
UNITED STATES STEEL CORP
UNITED TECHNOLOGIES CORP
UNITEDHEALTH GROUP INC
UNIVAR INC
UNIVERSAL HEALTH SVCS INC
UNUM GROUP
US FOODS HOLDING CORP
VALERO ENERGY CORP
VERITIV CORP
VERIZON COMMUNICATIONS INC
VF CORP
VIACOM INC
VISA INC
VISTRA ENERGY CORP
VOYA FINANCIAL INC
WALGREENS BOOTS ALLIANCE INC
WALMART INC
WASTE MANAGEMENT INC
WEC ENERGY GROUP INC
WELLCARE HEALTH PLANS INC
WELLS FARGO & CO
WESCO INTL INC
WESTERN DIGITAL CORP
WESTERN UNION CO
WESTLAKE CHEMICAL CORP
WESTROCK CO
WEYERHAEUSER CO
WHIRLPOOL CORP
WILLIAMS COS INC
WINDSTREAM HOLDINGS INC
WORLD FUEL SERVICES CORP
WYNDHAM DESTINATIONS INC
WYNN RESORTS LTD
XCEL ENERGY INC
XEROX CORP
XPO LOGISTICS INC
YUM BRANDS INC
YUM CHINA HOLDINGS INC
ZIMMER BIOMET HOLDINGS INC

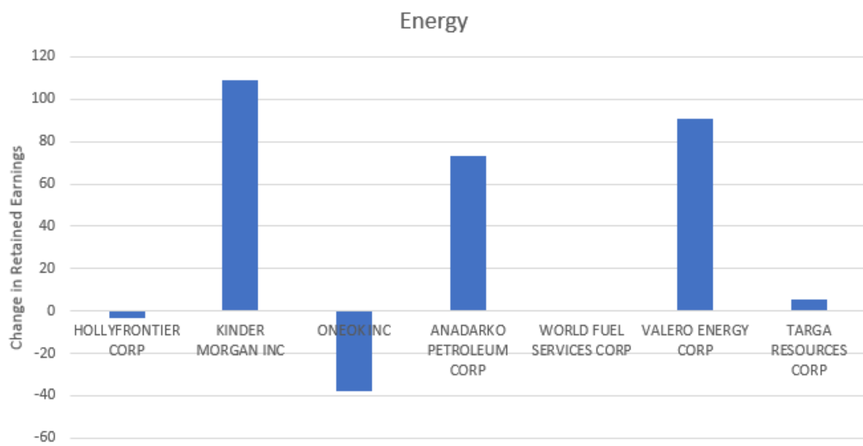
Appendix E

Changes to Retained Earnings for Early Adopters

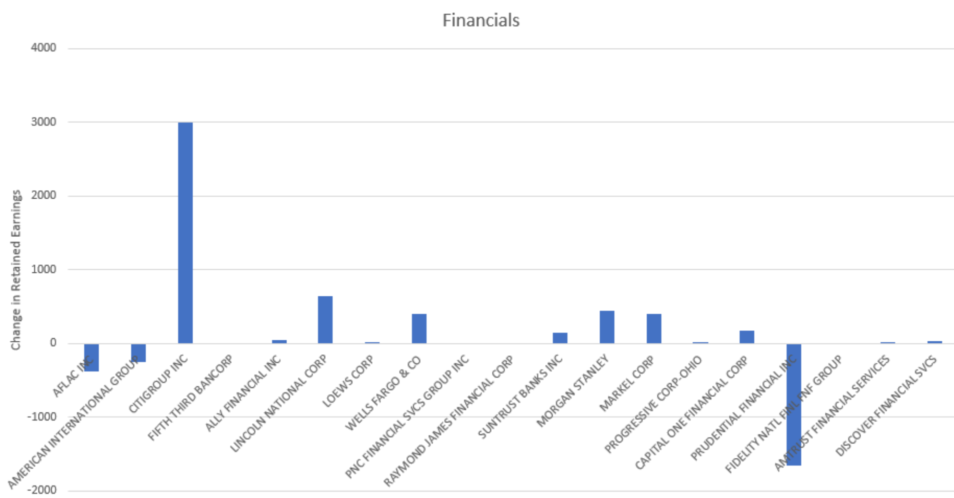




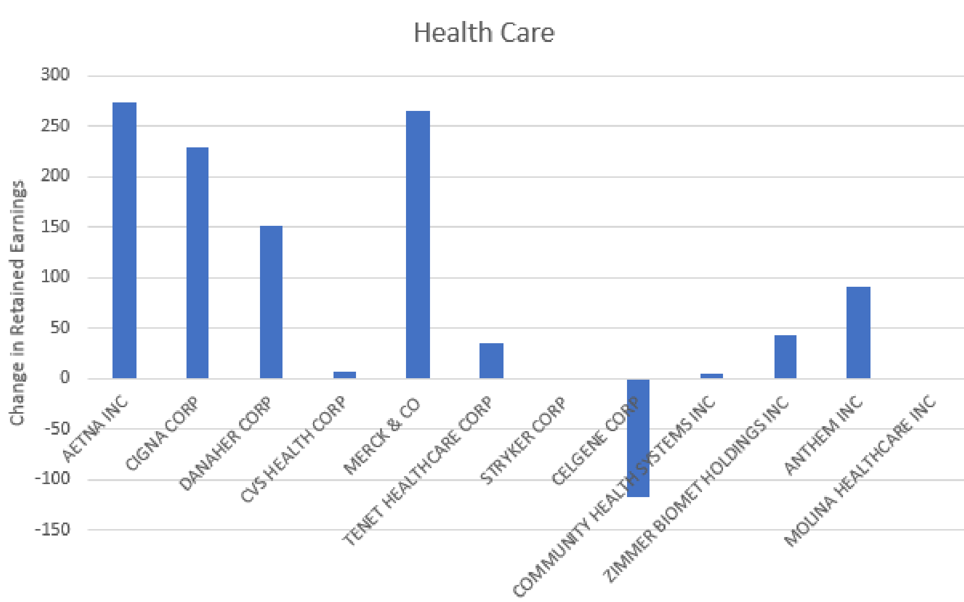




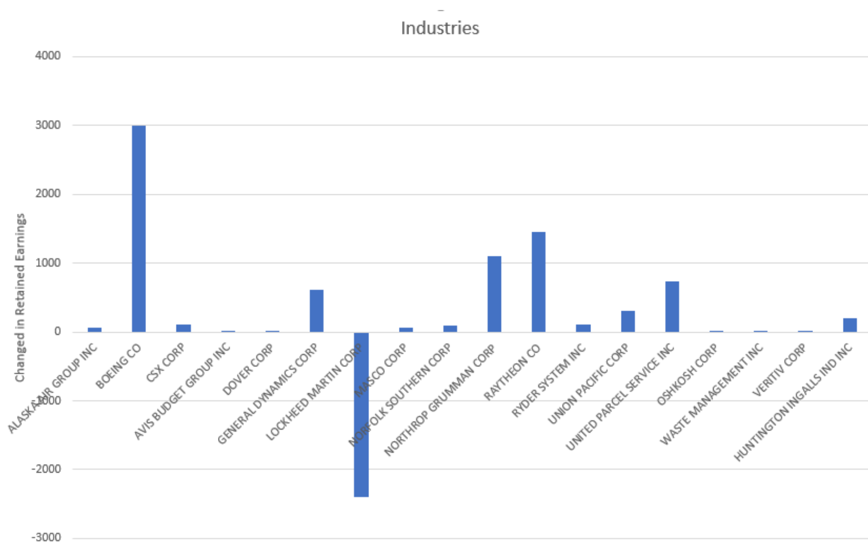
Energy
Change in Retained Earnings
120
100
80
60
40
20
0
-20
-40
-60
HOLLYFRONTIER CORP
KINDER MORGAN INC
ONEOK INC
ANADARKO PETROLEUM CORP
WORLD FUEL SERVICES CORP
VALERO ENERGY CORP
TARGA RESOURCES CORP

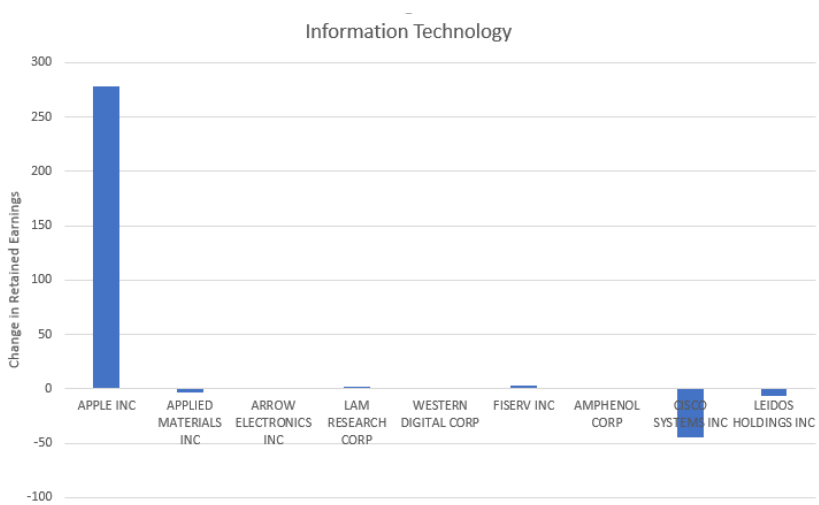


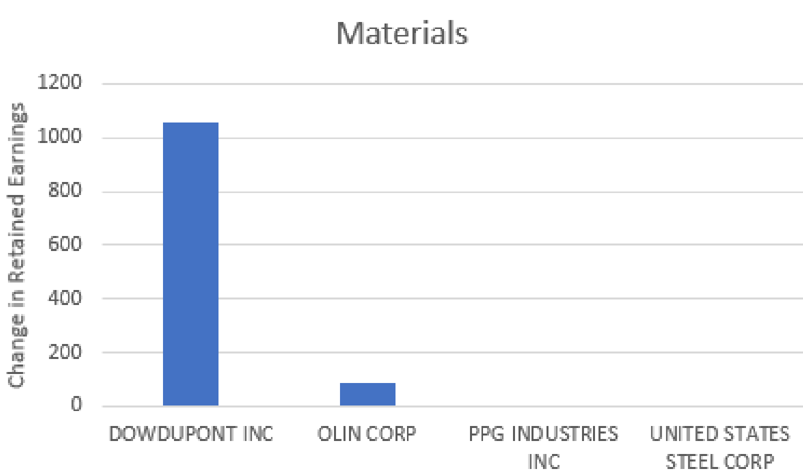
Financials
Change in Retained Earnings
4000
3000
2000
1000
0
-1000
-2000
AFLAC INC
AMERICAN INTERNATIONAL GROUP
CITIGROUP INC
FIFTH THIRD BANCORP
ALLY FINANCIAL INC
LINCOLN NATIONAL CORP
LOEWS CORP
WELLS FARGO & CO
PNC FINANCIAL SVCS GROUP INC
RAYMOND JAMES FINANCIAL CORP
SUNTRUST BANKS INC
MORGAN STANLEY
MARKEL CORP
PROGRESSIVE CORP-OHIO
CAPITAL ONE FINANCIAL CORP
PRUDENTIAL FINANCIAL INC
FIDELITY NATL FINL FNF GROUP
AMTRUST FINANCIAL SERVICES
DISCOVER FINANCIAL SVCS

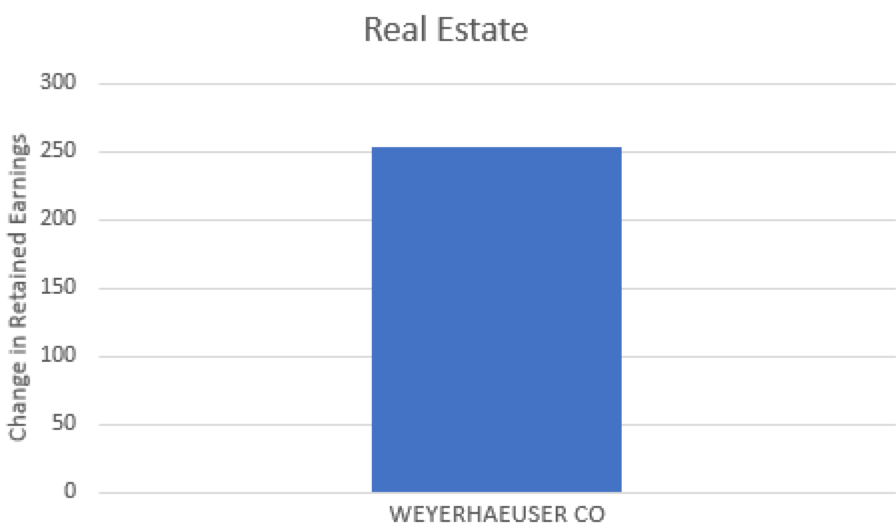


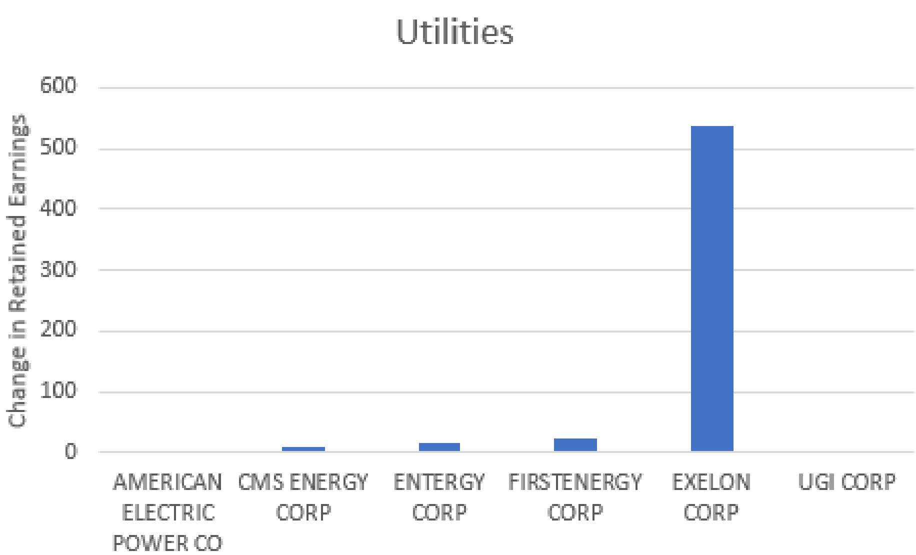
Health Care
Change in Retained Earnings
300
250
200
150
100
50
0
-50
-100
-150
AETNA INC
CIGNA CORP
DANAHER CORP
CVS HEALTH CORP
MERCK & CO
TENET HEALTHCARE CORP
STRYKER CORP
CELGENE CORP
COMMUNITY HEALTH SYSTEMS INC
ZIMMER BIOMET HOLDINGS INC
ANTHEM INC
MOLINA HEALTHCARE INC


Industries
Changed in Retained Earnings
4000
3000
2000
1000
0
-1000
-2000
-3000
ALASKA AIR GROUP INC
BOEING CO
CSX CORP
AVIS BUDGET GROUP INC
DOVER CORP
GENERAL DYNAMICS CORP
LOCKHEED MARTIN CORP
MASCO CORP
NORFOLK SOUTHERN CORP
NORTHROP GRUMMAN CORP
RAYTHEON CO
RYDER SYSTEM INC
UNION PACIFIC CORP
UNITED PARCEL SERVICE INC
OSHKOSH CORP
WASTE MANAGEMENT INC
VERITIV CORP
HUNTINGTON INGALLS IND INC


Information Technology
Change in Retained Earnings
300
250
200
150
100
50
0
-50
-100
APPLE INC
APPLIED MATERIALS INC
ARROW ELECTRONICS INC
LAM RESEARCH CORP
WESTERN DIGITAL CORP
FISERV INC
AMPHENOL CORP
CISCO SYSTEMS INC
LEIDOS HOLDINGS INC


Materials
Change in Retained Earnings
1200
1000
800
600
400
200
0
DOWDUPONT INC
OLIN CORP
PPG INDUSTRIES INC
UNITED STATES STEEL CORP

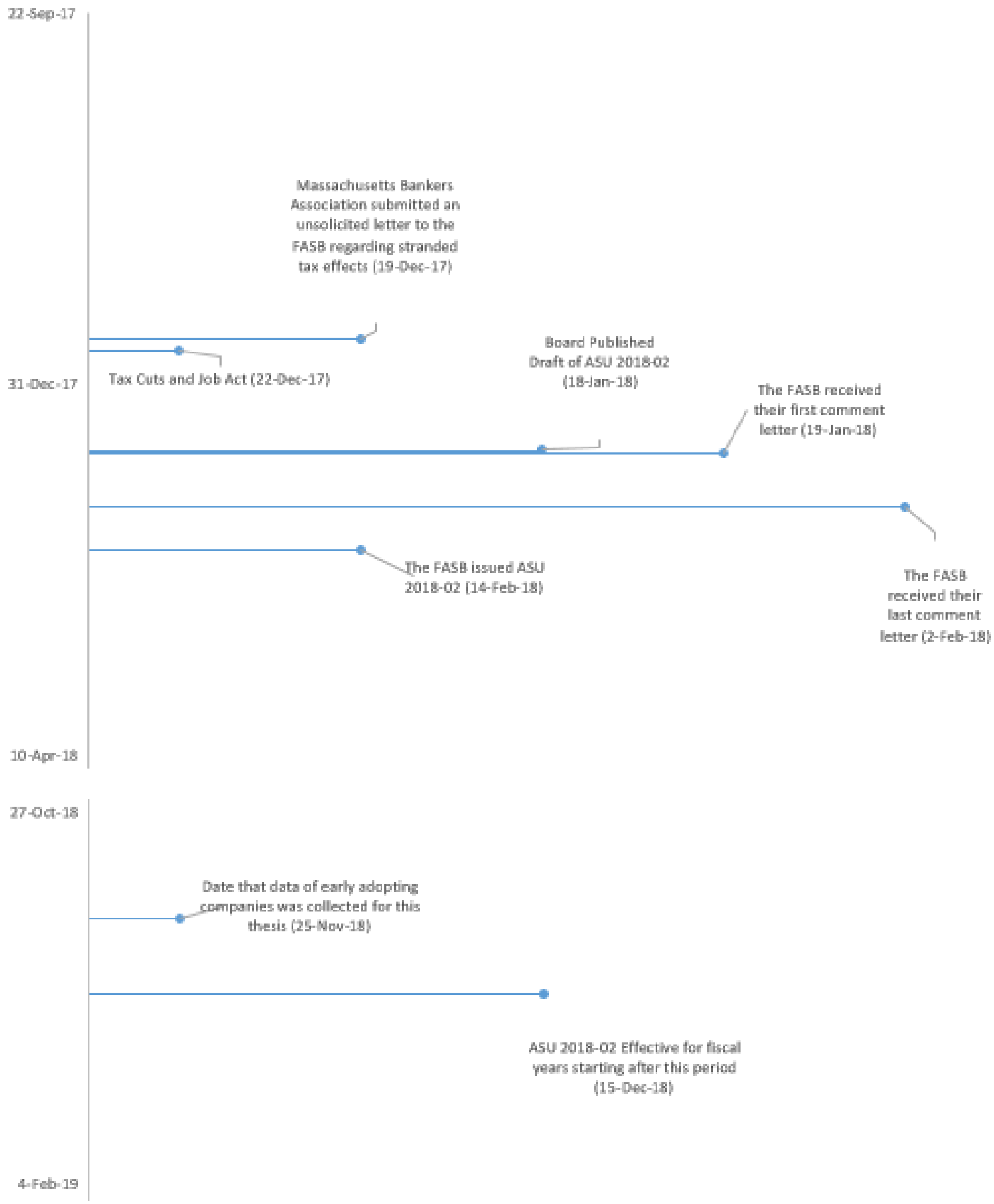




This data comes from Compustat Daily Updates – Fundamentals Quarterly (2018) as a function of Wharton Research Data Services.

Appendix F

Timeline



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Academic Vita of Thomas Andrews

Thomas.alton.andrews@gmail.com

EDUCATION

The Pennsylvania State University | Schreyer Honors College — **University Park, PA**

Smeal College of Business | Bachelor of Science in Accounting – 150 Credit Hours — *Class of May 2019*

Eberly College of Science | Minor in Mathematics

College of the Liberal Arts | Minor in Economics

RESEARCH

The Pennsylvania State University — **University Park, PA**

Applied Mathematics REU | Eberly College of Science — *May 2018 – Sep 2018*

- Engineered a Python program designed to use visual recognition and a test dataset to learn how to play and win games of Connect Four
- Applied a convolutional neural network to enable pattern recognition and therefore learn strategies to implement in all game situations

RELEVANT EXPERIENCE

KPMG — **New York City, NY**

Financial Due Diligence | Deal Advisory Intern — *Jun 2017 – Aug 2017*

- Created and analyzed quality of earnings reports using Excel pivot tables and formatted data books to distribute to private equity clients
- Examined 30 supplier contracts to collect the client's specific obligations that would be affected by the new revenue recognition rules
- Generated 4 heat maps for a 200 page AAS client report to communicate crucial changes required for the company's accounting policies

WeiserMazars LLP — **Fort Washington, PA**

Audit Summer Intern — *Jun 2016 – Aug 2016*

- Analyzed employee 401(k) plans and conducted confirmation correspondence with the recipients to verify the information
- Tested randomized employee fund samples to ensure the accuracy of employer and union contributions to the benefit plans

LEADERSHIP AND INVOLVEMENT

Penn State IFC/Panhellenic Dance MaraTHON — **University Park, PA**

Executive Committee | Merchandise Director — *Apr 2018 – Present*

- Managed a $500,000 inventory and 70 volunteers in the operation of the physical and online stores by negotiating with vendors to cut costs, increasing inventory turnover, and redesigning the order management process to handle higher volume of online sales
- Oversaw the design, order, and delivery of all merchandise for the 17,000 volunteers of the largest student-run philanthropy in the world

University Park Undergraduate Association — **University Park, PA**

Eberly College of Science Representative | LionLink Student Advisory Team — *Sep 2017 – May 2018*

- Consolidated the tutoring program information of the 13 undergraduate colleges onto one platform to ensure easy accessibility to students
- Assessed the functionality of a new university-wide networking tool designed to create professional connections between students and the 750,000-member alumni network and served as a liaison between campus departments and students

ADDITIONAL INVOLVEMENTS, HONORS, AWARDS, AND INTERESTS

- Accounting Tutor, Resumeredo.org (founder), Smeal College of Business Career Guide
- Excellence in Accounting, Academic Excellence Scholar, Evan Pugh Junior Award, Gerald Bayles Scholarship, Van Dyke Scholarship
- Earned third place in a 46-hour undergraduate case competition sponsored by Deloitte, which focused on the rebranding of a company