

## MINUTES



**To:** Board Members  
**From:** Kispert (ext. 310)  
**Subject:** Minutes of February 16, 2005 Board Meeting **Date:** February 23, 2005  
**cc:** Smith, Bielstein, Petrone, Leisenring, Project Team, Golden, IASB (McGeachin, Upton, Stevenson), McBride, Geary, Swift, Polley, Gabriele, Vincent, Getz, Intranet (e-mail)

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

**Topic:** Alternative Approaches to Account for Uncertain Tax Positions and Transition Method Alternatives for the Proposed Interpretation

**Basis for Discussion:** Board Memorandum 3, dated December 8, 2004, and Board Memorandum 4, dated February 17, 2005

**Length of Discussion:** 10:45 a.m. to 12:10 p.m. and 1:00 p.m. to 2:00 p.m.

**Attendance:**

Board members present:	Herz, Trott, Crooch, Schipper, Batavick, Seidman, and Young
Board members absent:	None
Staff in charge of topic:	Thomas
Other staff at Board table:	Cassel, Golden, Posta, and Kispert
Outside participants:	None

**Summary of Decisions Reached:**

At today's meeting, the Board decided to:

1. Require that an entity recognize the benefit of tax positions when it is probable, in the context of FASB Statement No. 5, *Accounting for Contingencies*, that the position will be sustained when challenged by taxing authorities.
2. Require that an entity presume that a taxing authority will review a tax position when evaluating whether the position is probable of being sustained. Therefore, consideration of the risk of detection is inappropriate.
3. Require that the benefit of tax positions be derecognized when it is more likely than not that the position will not be sustained.
4. Require the use of a best estimate to measure the financial statement benefit of a tax position.
5. Classify the liability that results from the difference between the probable tax basis in the financial statements and the as-filed tax basis based on the expected timing of cash flows to settle underpayment controversies with taxing authorities.
6. Recognize an interest expense accrual for the settlement of underpayment controversies based on the amounts reflected on the tax return for which a benefit has not been recognized in the financial statements.
7. Affirm its decision that disclosures should continue to be made in accordance with Statement 5.
8. Account for the impact of adopting the new pronouncement as a cumulative effect of a change in accounting principle.

The Board instructed the staff to proceed to a draft of a proposed Interpretation for vote by written ballot.

**Objective of Meeting:**

The objectives of the Board meeting were for the Board to consider a) alternative accounting models for uncertain tax positions, b) enhanced disclosures, c) accrual of interest and penalties, and d) the transition method for the proposed Interpretation.

**Matters Discussed and Decisions Reached:**

1. Mr. Thomas began the meeting by stating that in December 2004, a FASB Board member and a staff member met with several partners from a Big 4 accounting firm and several of their clients to discuss the Board's tentative conclusions in the

uncertain tax positions project. Partially, as a result of that meeting, that Board member believed it would be helpful to meet with the Internal Revenue Service (IRS) to understand their perspective of the interactions between the IRS and taxpayers.

2. On January 6, 2005, a Board member and staff members met with tax partners of a large law firm, who were previously IRS or Treasury department officials, and had a separate meeting with the Commissioner of the IRS, senior members of the Commissioner's staff, the Chief Accountant, and senior staff members from the Office of the Chief Accountant. Those meetings were held to solicit feedback from subject matter experts on the uncertain tax positions project and to understand the settlement process for tax controversies between taxpayers and the U.S. federal taxing authority.
3. Mr. Thomas noted that in separate meetings with Board members, the Board asked the staff to research alternative methods of accounting for uncertain tax positions.

#### **ALTERNATIVE APPROACHES TO ACCOUNTING FOR UNCERTAIN TAX POSITIONS**

4. Mr. Thomas stated that the Board's tentative conclusions to date are collectively referred to as the Asset Approach. The new model the staff has developed for the Board's consideration is referred to as the Impairment Approach. Mr. Thomas noted that a fundamental difference between the Asset Approach and the Impairment Approach is the consideration of the risk of detection. That is, once an enterprise has taken a tax position (or anticipates taking a position) in a tax return, whether the enterprise should presume that taxing authorities will review (or detect) the position.
5. Mr. Thomas stated that under the Impairment Approach, the benefit from a tax position would be recognized when (a) it is probable that the tax position will meet the minimum requirements under the relevant tax law to avoid statutory penalties for underpayment of a tax liability to a taxing authority (referred to as Substantial Authority) and (b) it is not probable that the taxpayer will have to make additional payments to taxing authorities to settle underpayment controversies. The benefit would be measured using the relevant tax code as reduced by the best estimate of

the amount of any payments of incremental income tax and interest that it is probable will be made to the taxing authority to resolve any claim or controversy.

6. Mr. Thomas stated that in providing guidance on the accounting for unasserted claims, paragraph 38 of Statement 5 requires that in determining if it is probable that an asset has been impaired or a liability has been incurred, an enterprise must determine if it is both probable that a claim will be asserted and probable that a counterparty will prevail. The probability of assertion of a claim in the context of tax controversies is the assessment that a taxing authority will detect the tax position and assert a claim for deficiency. In other words, pursuant to paragraph 38 of Statement 5, it is appropriate for a financial statement issuer to consider the risk of detection when calculating an accrual that represents anticipated payments to settle controversies with taxing authorities.
7. However, Mr. Thomas explained that it is important to note that, under the Impairment Approach, it is only appropriate to consider the risk of detection when a tax position taken in a tax return satisfies a confidence level of Substantial Authority. If the tax position does not satisfy Substantial Authority, then detection should be presumed under the Impairment Approach.
8. Mr. Thomas stated that the staff believes that since most tax jurisdictions have requirements to file income tax returns, detection of transactions should be presumed when recognizing financial statement benefits from income tax positions. Mr. Thomas further stated that the staff recommendation is for the Board to adopt the Asset Approach when recognizing the benefit from tax positions. Mr. Thomas asked the Board whether they agree with the staff's conclusion that detection risk should be presumed and whether they agree with the staff's recommendation to adopt the Asset Approach.
9. Ms. Seidman agreed that detection risk should be presumed when determining whether an entity should recognize financial statement benefits for tax positions. She also supported the Asset Approach. Ms. Schipper concurred.
10. Mr. Young disagreed with Ms. Seidman and Schipper. He stated that investors depend solely on management to understand an entity's tax strategies and their impact on cash flows. He indicated that investors want to see an accurate portrayal of the tax position of the company and that presuming detection risk does

not result in an accurate portrayal. Mr. Young stated that he believes the Impairment Approach is more likely to be accurate, but he is willing to accept the Asset Approach with a low threshold, such as Substantial Authority, to prevent a systematic understatement of tax benefits.

11. Ms. Schipper noted that the Impairment Approach violates the definition of an asset, which includes the aspect of control. An entity cannot control the counterparty's (the IRS's) behavior, so an asset should not be recorded based on the expectation of that counterparty's behavior.
12. Mr. Trott stated that it is the Board's intent to provide a framework for how management should assess its judgment. The Impairment Approach will not improve comparability among entities nor will it result in an appropriate presentation of the tax liability and tax expense. Mr. Trott stated that FASB Statement No. 109, *Accounting for Income Taxes*, does not allow for a fair value measurement, and when fair value measurement is not an option, he supports a requirement for a high recognition threshold. Mr. Trott stated that he agrees with Mses. Seidman and Schipper.
13. Mr. Herz stated that after participating in the meetings that Mr. Thomas mentioned, he believes that having a high threshold (i.e., probable) for recognition of tax benefits leads to operationality issues. Requiring a high recognition threshold also does not match how various tax systems work. In the U.S. tax system, an entity must meet a confidence level of Substantial Authority. Different countries require an entity to meet different thresholds to avoid penalties for understatement, and Mr. Herz stated that he believes an asset is created by meeting a threshold that is analogous to Substantial Authority. Mr. Herz found the Impairment Approach the most operational and representationally faithful of the cash flows of the uncertain tax position. As a second choice, Mr Herz would accept the Asset Approach with a Substantial Authority threshold coupled with a Statement 5 approach after recognition (i.e., an asset would be created if the Substantial Authority threshold is met and then in determining whether that asset is impaired, a Statement 5 approach would be used to determine the impairment amount that is probable and estimable).
14. Mr. Trott asserted that he is unaware of any other asset for which a confidence level of Substantial Authority is sufficient for the recognition of an asset, barring

those assets that are measured at fair value. Substantial Authority does not ensure that the position is correct; it is simply a threshold under which statutory penalties attach.

15. Mr. Herz stated that he understands an entity that has met Substantial Authority for a tax position and is audited by taxing authorities will likely be disallowed a small portion of the benefit. Based on the meetings with the IRS, some entities also have a small chance of being audited. Because of the way the tax system works, he believes that the Impairment Approach is most representationally faithful of the cash flows.
16. Mr. Trott clarified that Mr. Herz's second choice would reduce the primary recognition criteria for recognizing a tax asset but would retain a high hurdle for recognizing a liability or an impairment.
17. Ms. Schipper noted that Mr. Herz's second choice would combine the probability of detection risk, the probability that the benefit will be sustained upon audit, and the expected settlement. This would result in calculating an expected value but would be different from fair value in some aspects, such as discounting. She reiterated that the probability of detection (i.e., the assessment of the counterparty's behavior) is contradictory to the definition of an asset, which requires control in order to qualify as an asset. Therefore, Ms. Schipper stated that she believes the view put forth by Messrs. Herz and Young is untenable given the definition of an asset in FASB Concepts Statement No. 6, *Elements of Financial Statements*.
18. Mr. Crooch agreed that detection risk should be presumed and that the Asset Approach should be utilized. Mr. Batavick stated that he agreed with Mr. Crooch because he cannot reconcile good financial reporting with allowing detection risk to be a factor in determining whether a tax benefit should be recognized.
19. Mr. Herz stated that he does not object to the Asset Approach. The Board agreed to presume that tax positions will be reviewed and that considering the risk of detection is not appropriate in accounting for the benefits of tax positions. The Board further agreed to use the Asset Approach.

#### **ALTERNATIVE CONFIDENCE THRESHOLDS UNDER THE ASSET APPROACH**

20. Mr. Thomas stated that under the Asset Approach, the following thresholds are being presented for consideration:

- a. Probable (in the Statement 5 context)
- b. More likely than not (for both recognition and derecognition)
- c. Dual threshold approach (recognize benefits at the probable threshold and derecognize tax benefits when it is more likely than not that the position will not be sustained)
- d. Minimum statutory threshold to avoid penalties on a jurisdiction-by-jurisdiction basis.

Mr. Thomas stated that many permutations could be selected using the dual threshold approach. However, the staff presented the option that requires recognition at the probable threshold and derecognition at the more likely than not threshold since the staff believes that combination has the most conceptual merit. Mr. Thomas added that, while the staff has a divided view, the staff recommendation is for the Board to adopt the dual threshold approach with recognition at probable and derecognition at more likely than not.

- 21. Mr. Batavick stated that he believes that a more likely than not threshold should be used for both recognition and derecognition because of the unique characteristics of the tax system. From an implementation standpoint, a more likely than not threshold results in a higher degree of operability.
- 22. Mr. Crooch stated that he supports the staff's recommendation to use a dual threshold approach.
- 23. Ms. Seidman stated that she supports a more likely than not threshold for both recognition and derecognition. To determine which threshold to use, Statement 5 could be looked at for guidance and would result in a probable threshold. Concepts Statement 6 also could be looked at for guidance, which would focus on what is reasonably expected. Ms. Seidman stated that she believes that financial reporting in this area should reflect management's best estimate of the tax benefit that will ultimately be accepted by taxing authorities, assuming it is detected. A more likely than not threshold is supported conceptually and is also used in Statement 109 for recognizing an allowance for a deferred tax asset.
- 24. Mr. Cassel stated that he wanted to make sure that everyone was talking about the same thing. He believes that using a more likely than not *measurement*

mechanism does not match the Asset Approach, which requires that an entity would only recognize financial statement benefits for positions that the entity is “entitled” to receive and that meet the probable threshold.

25. Mr. Golden clarified that the previous discussion revolved around whether to use a double trigger threshold as used under the Impairment Approach, or a single trigger threshold as used under the Asset Approach.
26. Mr. Herz stated that he thought that, based on the Board's prior tentative decisions, in order to recognize a tax benefit, it must be probable that the nature of the deduction is valid. An entity may then estimate that it is unlikely to receive the full amount of the benefit.
27. Mr. Crooch stated that if an entity has Substantial Authority, and every time that entity takes that tax position it gets 85 percent of the benefit, the entity would record 100 percent and set up a valuation allowance for 15 percent.
28. Mr. Thomas noted that the threshold question goes to the validity of the deduction—whether it is probable that if an entity contests a claim all the way through the tax system, the entity would prevail.
29. Mr. Trott stated that the threshold to be used should be probable because the recognition of an asset should have a high confidence level, and the threshold is the most consistent with the current application of recognition. Mr. Cassel added that when Statement 109 was developed, the term *probable* was not used for recognition purposes because whether or not an entity could recognize an asset or deductible temporary difference needed to be a fact under the tax law. Assessments of the appropriate tax basis were only considered in situations in which there was uncertainty, such as business combination tax basis. Additionally, a probability notion was used in determining whether to record a valuation allowance because of the uncertainty in assumptions about future taxable income.
30. Ms. Schipper stated that she believes that if fair value were an option under Statement 109, the Board would be approaching this issue differently. However, fair value is not an option for this proposed Interpretation. Uncertain tax positions are situations in which an entity is uncertain whether it is truly entitled to the benefit. The measurement of the tax benefit should be based on the magnitude of the future economic benefit. Ms. Schipper concluded that she believes a probable

threshold is appropriate in order to get parity with the recognition of other assets for which fair value measurement is not an option.

31. Mr. Young stated that he supports a Substantial Authority threshold because he does not want tax expense to be overstated. If detection risk is not considered, he believes that the amounts recognized will not be representative of the expenses that companies ultimately will pay.
32. Mr. Thomas stated that he disagreed with Mr. Young's assertion about the overstatement of tax expense. Mr. Thomas stated that in preparing for issuance of an Exposure Draft in December 2004, he had sent a staff draft of the proposed Interpretation to several preparer constituents. Mr. Thomas stated that none of the preparer constituents who had reviewed the staff draft had expressed the view that income tax expense would be overstated under the proposed Interpretation.
33. Mr. Herz disagreed and stated that he had heard opposite remarks from constituents. He believes that a threshold of Substantial Authority should be used and would object to the Interpretation if the Board decides to use a probable threshold because it leads to highly misleading accounting. He also stated that he disagrees with the Board's prior tentative conclusion that an entity should record a current liability if the confidence threshold is not met.
34. Mr. Trott and Ms. Schipper both stated that they would be willing to accept the dual threshold in the interest of compromise. Mr. Herz stated that he could also accept the dual threshold as long as questions were posed to constituents in the notice to recipients of the Exposure Draft of the proposed Interpretation. Mr. Herz asked if any Board members objected to the dual threshold and no one did. Board members also decided to discuss the classification of the liability as part of this meeting.

#### **MEASUREMENT OF THE FINANCIAL STATEMENT BENEFIT**

35. Mr. Trott asked whether Board members agreed that the financial statement benefit should be measured using the best estimate of the expected benefit, presuming detection risk. All of the Board members agreed.
36. Mr. Cassel asked to clarify the decision with an illustration. The illustration was that an entity has Substantial Authority for a \$100 benefit. Historically, the position always is contested by the taxing authority and the entity always is disallowed 15

percent of the benefit. Mr. Cassel asked in determining the best estimate, is it appropriate to ask whether it is probable that there will be a tax settlement and then determine the best estimate, or is it appropriate to take the best estimate of probabilistic distribution?

37. Mr. Trott stated that an expected value should not be used. If the best estimate is \$15, then a tax benefit would be recorded for \$85. Mr. Golden added that there could be several possible outcomes but that the entity would be required to take the best estimate and not consider the weighted probability of multiple outcomes.
38. Ms. Seidman restated Mr. Cassel's illustration a different way. For example, an entity takes a deduction in its tax return for \$100. The first question asked is, is it probable that if audited the deduction will be viewed as valid? If yes, then consider the appropriate measurement. The measurement would be an assessment of the best estimate of what is expected to be paid, if audited.
39. Mr. Thomas stated that when determining whether it is probable, an entity would determine whether it is probable it has a valid position. That is, whether the position is supportable by the available evidence. If the taxing authority were to dispute the benefit and the dispute were to go through the tax courts, and it is probable that the taxpayer would prevail, the entity would then determine the appropriate measurement. Measurement would be based on a best estimate. The threshold question for recognition is whether the taxpayer has a valid deduction.
40. Mr. Cassel questioned how far away a best estimate can be from the total deduction and not be in violation of the recognition principle.
41. Mr. Thomas stated that, in his opinion, if you are discussing validity of a position, the further you get away from the full benefit of \$100, the more it calls into question whether the deduction is valid. Below a 20 to 30 percent discount on the full benefit of the position, if the issue was validity, Mr. Thomas stated that he would believe the deduction would still meet the probable criterion.
42. Ms. Schipper clarified that there are certain combinations of the best estimate amount and probability that are internally inconsistent. For example, if an entity believes it is probable that the deduction is valid but estimates that the best estimate of settlement is 15 percent, that combination is inconsistent. Mr. Thomas affirmed that in his view, Ms. Schipper's example would be a bifurcated gain

contingency. Thus, Ms. Schipper stated, when the best estimate is below 70 percent of the full deduction, it calls into question whether the entity has met the probable threshold.

43. Mr. Cassel stated that, in his mind, it needs to be probable that the full \$100 is valid. If it is invalid, an entity should not book any benefit. However, if it is valid, then an impairment test can be done to reduce the benefit. If you only look at whether the nature of the deduction is good, an entity could book any best estimate, which may contradict whether or not there was a valid deduction to begin with.
44. Mr. Herz gave an example of wage deductions. A wage deduction by its nature is a valid deduction. However, if that deduction is grossly overstated and, if audited, an entity would be disallowed 90 percent of the deduction, what would be booked? Ms. Schipper noted that that example would be fraudulent because the entity knowingly overstated its wage deductions.
45. Mr. Trott suggested the Board consider two examples that constituents have discussed—R&D credits and transfer pricing. It needs to be probable that the approach an entity takes in developing its transfer pricing, or what that entity believes qualifies for R&D credits, is probable of being accepted. While the validity of the nature of that deduction is clear, there will be issues as to whether the entity picked the right comparables for its transfer pricing or whether a certain expenditure is properly includable in an R&D credit. Once the probable threshold is met, the entity determines its best estimate of what amount of the benefit will be sustained upon audit. There is not an automatic cut-off; the lower the entity goes, the more it calls into question whether the deduction is valid.
46. Ms. Schipper agreed with Mr. Thomas and Mr. Trott that it is a matter of judgement in the facts and circumstances and the farther one gets from 100 percent for a best estimate, the less likely it is that one can sustain the probable criteria.
47. Mr. Thomas added that the entity can disaggregate the position to a lower unit of account to determine if the probable threshold is still met.
48. Ms. Seidman described her view: First, take a deduction, then ask, is it probable that the nature of the deduction is valid? Yes. Then, go to measurement and use the best estimate, assuming audit. Ms. Seidman suggested that in the basis for

conclusions of the proposed Interpretation, language be added to address when the best estimate is very low and could call into question the validity of the position. Ms. Seidman indicated that it is important to put such language in the basis for conclusions and not in the body of the proposed Interpretation. Mr. Golden asked Ms. Seidman whether, in her mind, the nature of the deduction is what is on the tax return, which includes the actual amount of the deduction and the validity of the deduction, or whether the nature of the deduction only includes the validity of the deduction but excludes the amount on the tax return. Ms. Seidman responded that she believes the nature of the deduction excluded the amount.

49. Mr. Thomas stated that R&D credits are a good example. He noted that the tax code is clear that an entity gets an R&D credit for the amount spent on qualifying expenditures. The question is whether or not the credits claimed by the entity are qualifying expenditures. When determining validity, measuring at 70 percent to 80 percent, in his view, does not call into question the validity of the deduction. However, if the measurement is at 20 to 30 percent, in his view, it is more like a bifurcated gain contingency.
50. The Board agreed with Mr. Thomas's remarks.

#### **CLASSIFICATION**

51. Mr. Thomas stated that there are three views of the classification of tax effects related to tax positions reflected in tax returns that are not probable of being sustained:
  - a. Record a current liability for the difference between the probable tax basis and the as-filed tax basis
  - b. Record a current liability for the amount that does not meet the probability threshold (validity) and that affects the tax expense in the current period, and base the liability classification for the amount of difference between the best estimate and the full benefit (measurement) according to the expected timing of cash flows
  - c. Record a liability for the difference between the probable tax basis and the as-filed tax basis, and classify the liability based on the expected timing of cash flows.

52. Mr. Golden noted that the Board's previous decision to record a current liability was predicated on the notion that if the entity had not taken the deduction in the tax return, the amount would have been a current tax liability.
53. Mr. Trott stated that he prefers recording a current liability because it is consistent with current literature, but he would not object to the bifurcated model.
54. Ms. Schipper agrees with classifying the liability as current because the other methods require an entity to predict the counterparty's (IRS) behavior when the IRS can ask for the cash at any time. A current liability classification reflects the economic position of the enterprise.
55. Mr. Batavick stated that he disagrees with classifying the liability as current because a settlement is not expected to occur in the next 12 months. Therefore, he prefers (c) above, which requires the liability to be classified according to the expected timing of cash flows.
56. Ms. Seidman noted that she does not want to use a bifurcated model because it is complex and does not provide useful information. She prefers the current liability approach for the reasons expressed by other Board members as well as because it follows the guidance in ARB 43 which states that taxes to be paid are a current liability.
57. Mr. Young stated that he supports classifying the liability based on the expected timing of cash flows. Mr. Crooch stated that he supports the current liability approach but would not object to a timing approach. Mr. Herz prefers to reflect the cash flows because he believes classifying the liability as current is misleading.
58. Mr. Herz stated that he would object to the current liability classification. He asked the Board members if anyone would object to basing the classification on the expected timing of cash flows. Ms. Schipper objected. However, the Board decided to classify the liability based on the expected timing of cash flows.

## **INTEREST**

59. Mr. Thomas stated that the Board previously considered classification but not accrual of interest. Since the tax code requires accrual of interest expense on any underpayment, the staff recommends that interest expense continue to be accrued on any amounts reflected on the tax return but which the taxpayer does not

recognize as a benefit and in anticipation of settlement with taxing authorities. Thus, the staff believes that accrual of interest should be prescribed by the proposed Interpretation.

60. Mr. Golden clarified that when the probable threshold is not met, 100 percent of the amount of the benefit will have interest accrued on it. When the probable threshold is met but a discount has been taken for the best estimate, interest would be accrued on the difference.
61. Mr. Crooch asked for further clarification. Mr. Thomas gave the example that if the benefit in the tax return is \$100 and the best estimate that will be sustained is \$85, then an entity would accrue interest on \$15. However, Mr. Thomas asked, if the benefit (again \$100) does not meet the probable threshold but the entity expects to ultimately sustain a benefit of \$30, would it accrue interest on \$70 or the whole \$100?
62. Mr. Trott stated that he would accrue interest on the full \$100. Mr. Herz agreed that Mr. Trott's analysis would logically follow the model.
63. Mr. Cassel acknowledged that he supports the probable threshold but believes that Statement 5 should be followed regarding interest expense. Therefore, he would accrue interest on \$70.
64. Mr. Trott stated that he believes that the IRS giving up a claim against an entity is a gain contingency. Ms. Schipper agreed that interest should be accrued on the full \$100. Ms. Seidman also agreed that interest should be accrued on the full \$100 if the model is followed.
65. Mr. Batavick stated that he would accrue interest on \$70. Mr. Crooch disagreed and stated that he would accrue interest on \$100. The Board decided that interest should be accrued on the entire amount when the probable threshold has not been met, and interest should be accrued on the difference between the full benefit and the best estimate when the probable threshold is met.

#### **ENHANCED DISCLOSURES**

66. Mr. Thomas stated that the Board has tentatively concluded that no additional disclosures are required, but that financial statement issuers should provide the disclosures required by paragraphs 9 through 12 of Statement 5. The staff

suggests that additional disclosures be required to effectively provide a roll-forward of the accrual for settlement of tax controversies. Mr. Thomas asked the Board whether they agree that additional disclosures are necessary and with the staff's recommendation for additional disclosures.

67. Mr. Golden clarified that the staff initially decided on this recommendation in consideration of the Board deciding to adopt a lower threshold than probable to show the actual increases and decreases in the reserve accounts.
68. Ms. Schipper stated that the roll-forward would essentially be a reconciliation of the beginning and ending balances with line items for the change. For FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Board decided to require tabular reconciliations to allow financial statement users to understand the sensitivity around management estimates. For uncertain tax positions, had the Board decided to lower the recognition threshold, Ms. Schipper would have supported enhanced disclosures. However, as the Board decided to adopt the probable threshold, she does not support requiring additional disclosures because it is not a sensitive management estimate.
69. Mr. Herz stated that the degree of evidence to support meeting the probable threshold is, in some cases, either not available or fairly judgmental. He supports the tabular reconciliation to produce discipline.
70. Mr. Trott stated that he believes Statement 5 should be followed for disclosures because this is more of a gain contingency issue. He would not be opposed to enhanced disclosures, but it is not his preference.
71. Mr. Batavick stated that he does not support expanding disclosures because they deal with sensitive information. Mr. Crooch and Ms. Seidman also do not support requiring additional disclosures. Thus, the Board decided not to add additional disclosures.

## **TRANSITION METHODS**

72. Mr. Thomas stated that there are two alternative transition methods for the Board to consider today.

- a. Alternative 1—(*Change in Estimate*) Account for the impact of adopting the proposed Interpretation as a change in estimate effected by a change in accounting principle.
- b. Alternative 2—(*Cumulative Effect*) Account for the impact of adopting the proposed Interpretation as the cumulative effect of a change in accounting principle.

The staff recommends that the Board adopt Alternative 2.

73. Mr. Trott stated that he prefers Alternative 1 because it provides the most useful information.
74. Ms. Seidman stated that she supports Alternative 2 because it is a clear change in accounting principle. Messrs. Crooch and Batavick and Ms. Schipper concurred. Ms. Schipper stated that the Board is not asking preparers to change their estimates; the Board is simply establishing guidance around a threshold that the existing estimates would be subject to.
75. Mr. Cassel brought up the point that if the Board issues the draft of its Accounting Changes document, the choices will be an income statement charge or a direct charge to retained earnings. However, the Board decided to still consider the alternatives given by the staff today.
76. Messrs. Herz and Young support Alternative 1. However, the Board decided to adopt Alternative 2—account for the impact of adopting the proposed Interpretation as the cumulative effect of a change in accounting principle.

#### **BALLOT DRAFT**

77. Mr. Thomas asked the Board whether they agreed that the staff should proceed to a formal ballot draft of the proposed Interpretation. The Board agreed.

#### **Follow-up Items:**

None.

#### **General Announcements:**

None.