

MINUTES



To: Board Members

From: Short-Term Convergence—Income Tax Team (Kispert, Ext. 310)

Subject: Minutes of the January 19, 2005 Board Meeting **Date:** January 26, 2005

cc: Bielstein, Smith, Petrone, Leisenring, Project Team (Cassel, J. Johnson, McGeachin, Posta, Thomas), Golden, McBride, Geary, Mahoney, Thompson, Vincent, Sutay, Gabriele, Swift, Polley, FASB Intranet (e-mail), Getz

Topic: Issues Related to the Recognition and Measurement of Deferred Taxes

Basis for Discussion: Board Memorandums 9 and 10 dated January 7 and 17, 2005, respectively

Length of Discussion: 9:00 a.m. to 10:00 a.m. (EST)

Attendance:

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

Summary of Decisions Reached:

The Board considered certain differences between the provisions of FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*, related to the tax rate to be used in measuring deferred tax assets and liabilities. The Board decided:

1. To amend Statement 109 to clarify that enactment occurs when every action, other than perfunctory actions, has occurred that is required for a measure to become law.
2. If corporate income is taxed at different rates depending on whether that income is distributed to shareholders, to require:
 - a. Measurement of deferred tax assets and liabilities using the distributed rate.
 - b. That for purposes of the consolidated financial statements, (a) would not apply to the extent that a subsidiary's earnings qualify for the unremitted foreign earnings exception to deferred tax accounting in Statement 109. Rather, the undistributed rate would be used to the extent the subsidiary's earnings qualify for the unremitted foreign earnings exception in measuring the deferred tax expense (or benefit) for the period that is recognized in the consolidated statements for that operation.
 - c. That the stand-alone financial statements of a foreign subsidiary disclose whether any portion of that subsidiary's earnings qualify for the unremitted foreign earnings exception in the consolidated financial statements of its parent. Specifically, to the extent that the foreign subsidiary's earnings qualify for that exception, disclosure of that fact and the difference in the tax expense (or benefit) for the period that would result from the use of the undistributed rate.

Additionally, the Board agreed to consider whether to eliminate existing differences between Statement 109 and IAS 12 relating to the accounting for the recognition of an acquirer's deferred tax benefits as a result of a business combination. The Board directed the staff to consider that issue in the context of the decisions reached in the joint IASB/FASB project on business combinations purchase method procedures.

Objective of Meeting:

The objective of today's meeting was to consider certain differences between the provisions of Statement 109 and IAS 12 related to the tax rate to be used in measuring deferred tax assets and liabilities. The Board was also asked whether the project scope should be expanded to include other differences between Statement 109 and IAS 12 identified by the staff. The meeting was divided into five topics:

1. The use of enacted tax rates or substantially enacted tax rates
2. The use of tax rates for distributed or undistributed earnings
 - a. In separate (single reporting entity) statements (Issue 2.1)
 - b. In the consolidated financial statements (Issue 2.2)
 - c. In the stand-alone financial statements of an entity that is consolidated by its controlling interest (Issue 2.2)
3. The IASB's decision related to the definition of the IASB's *probable* criterion in IAS 12 as compared to Statement 109's *more likely than not* criterion for recognition
4. Whether to expand the project scope to include other differences between Statement 109 and IAS 12.
5. Plans and expectations for the drafting of the Exposure Drafts resulting from this project.

Matters Discussed and Decisions Reached:

Section 1: Enacted Versus Substantially Enacted Tax Rates

1. Ms. Posta stated that the first topic is when to account for the effect of changes in tax rates. Statement 109 requires that deferred tax liabilities and assets be adjusted for the effect of a change in tax laws or rates in the period that includes the enactment date. Additionally, Statement 109 prohibits the anticipation of the effects of future changes in tax laws or rates. Paragraphs 46 and 47 of IAS 12 require that current and deferred taxes be measured using tax rates and laws that are enacted *or substantively enacted* by the balance sheet date. The staffs identified four alternatives for this issue:

Alternative 1A—Alternative 1A is to amend Statement 109 to (a) require use of substantively enacted rates and (b) include clarifying guidance that substantively enacted means that any anticipated change in tax rate is virtually certain.

Alternative 1B—Alternative 1B is to amend IAS 12 to (a) require use of the enacted criterion and (b) clarify that enactment occurs when every action, other than purely perfunctory measures, has occurred that is required for a measure to become law. Additionally, amend Statement 109 to clarify that enactment occurs when all actions, other than perfunctory measures, have been completed.

Alternative 1C—Alternative 1C is to (a) continue to use the substantively enacted rate in IAS 12 and the enacted rate in Statement 109 and (b) clarify in both standards that the terms mean that any anticipated change in the tax rate is virtually certain. Under this alternative, both Statement 109 and IAS 12 would include additional guidance that would indicate that these terms (that is, *enacted* and *substantively enacted*) mean that all necessary and essential procedures and processes have been completed and that enactment is virtually certain.

Alternative 1D—Alternative 1D is to maintain the status quo, that is, to amend neither IAS 12 nor Statement 109 and acknowledge the reason for this difference in the basis for conclusions.

2. Ms. Posta stated that the staffs recommend that IAS 12 be amended (a) to require use of the enacted criterion and (b) to clarify that enactment occurs when every action, other than purely perfunctory measures, has occurred that is required for a measure to become law. Additionally, the staffs recommend that Statement 109 be amended to clarify that enactment occurs when all measures, other than perfunctory measures, have been completed. [Alternative 1B]
3. Mr. Trott stated that he supports the staffs' recommendation and that those measures that are perfunctory are essentially ceremonial. For example, if an official has the right to veto and that official had indicated an intent to sign, the official's signature is not considered perfunctory. In the U.S., the president's signature would never be considered perfunctory. The staff agreed that in a U.S. context, the president's signature is not a perfunctory act, even if the measure was passed by a majority capable of overriding a presidential veto.

4. Ms. Seidman pointed out that in the U.S. context, there has been a recent trend in which the President signs a bill but further legislation (or departmental action) is necessary for specific implementation guidance about how the bill should be enacted. She confirmed that it is not the intent, in the context of substantively enacted, to extend the date (for example, beyond the Presidential signature) where one might conclude that legislation is complete. Rather, the discussion of perfunctory actions refer to those that might occur *before* the President signs the bill in the U.S. context. Ms. Seidman stated that it is important to clarify that point because the Board uses the term *perfunctory* in other guidance.
5. Mr. Batavick agreed with the staffs' recommendation because he believes it should not have a material impact on how preparers in U.S. tax jurisdictions account for changes in tax laws and rates. For the sake of convergence, Mr. Batavick supported taking advantage of the opportunity to use the same words.
6. Mr. Herz asked whether any Board members objected to the staffs' recommendation. No Board members objected.

Section 2: Distributed Versus Undistributed Rates

7. Ms. Posta stated that the second topic addresses the use of different tax rates for distributed or undistributed earnings. In some tax jurisdictions, corporate income is sometimes taxed at different rates depending on whether that income is distributed to shareholders. The rate that income distributed to shareholders is taxed (the distributed rate) may be higher or lower than the undistributed rate. This issue only addresses the taxation on distributions when the tax is paid by the distributing party.
8. Ms. Posta noted that in the U.S., distributed earnings are taxed at the same rate as undistributed earnings. However, this issue may apply to enterprises reporting under U.S. GAAP that are based (or have subsidiaries that are based) in foreign jurisdictions where there is a difference between the distributed and undistributed rates. Statement 109 is silent about whether the distributed or undistributed tax rate should be used in measuring deferred taxes. However, certain fact sets were addressed by the Emerging Issues Task Force (EITF) in EITF Issues No. 95-10,

“Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109,” and No. 95-20, “Measurement in the Consolidated Financial Statements of a Parent of the Tax Effects Related to the Operations of a Foreign Subsidiary That Receives Tax Credits Related to Dividend Payments.”

9. Ms. Posta stated that IAS 12 requires an enterprise to measure deferred tax assets and liabilities at the tax rate applicable to undistributed profits. Furthermore, IAS 12 prohibits the recognition of deferred tax assets or liabilities resulting from differences between the undistributed and distributed rates. Rather, the recognition of the tax consequences are delayed until an enterprise recognizes a liability to pay the dividend. IAS 12 makes no distinction between the required rate for a single entity paying dividends and for the consolidated financial statements of a parent with a foreign subsidiary or a domestic subsidiary. Therefore, the undistributed rate would be used in both situations until an entity has an obligation to distribute its profits.
10. Ms. Posta suggested that the Board first, determine its preference on the rate that should be used in the financial statements of a single reporting entity¹ and second, consider the implications of using that rate in the consolidated financial statements of a parent company and stand-alone financial statements of its subsidiary.

Issue 2.1: Under What Circumstances Should the Distributed Rate Be Used to Measure Deferred Tax Assets and Liabilities in Separate (Single Reporting Entity) Financial Statements?

11. Ms. Posta observed that there is a continuum of different views for when recognition of the tax effect (refund or payment) is appropriate when distributions will be taxed by a jurisdiction. At one end of the continuum (the “earlier” recognition end) are those that believe that the government has a claim (a right to collect taxes) that precludes shareholders from ever realizing a portion of the enterprise’s net assets (or, in cases where the distributed rate is less than the undistributed rate, that the entity, and ultimately its shareholders, has an asset for the refund available to it). This end leads one to conclude that the distributed rate

¹ A single reporting entity is an entity that has no subsidiaries and is not a subsidiary of another entity and

should be used to measure deferred tax assets and liabilities when income is earned. At the other end of the continuum (the “later” recognition end) are those that believe that an obligation to distribute all or a portion of income is necessary to recognize the tax effects of that distribution. This end leads one to conclude that the undistributed rate should be used to measure deferred tax assets and liabilities until the entity incurs an obligation to distribute all or a portion of the income.

12. Within that continuum, the staffs identified three alternatives for this issue:

Alternative 2.1A—Under Alternative 2.1A, the undistributed rate is used *until there is an obligation* to distribute a portion of profits, upon which the distributed rate would be required for that portion.

Alternative 2.1B—Under Alternative 2.1B, the undistributed rate is used *until an entity expects* that some or all of the undistributed earnings will be distributed upon which the distributed rate would be required.

Alternative 2.1C—Under Alternative 2.1C, the distributed rate is used when the income is earned. By distributed rate, the staff means the rate that the enterprise will be taxed on upon the distribution of income.

13. Ms. Posta reported that the staffs differ in their view of which event is the requisite past event and whether the obligation to pay tax (or the right to receive a refund) upon distribution meets the definition of a deferred tax liability (or a deferred tax asset); therefore, the staffs support different alternatives based on their views. Some staff members believe that entities should be required to use the undistributed rate *until there is an obligation* to distribute a portion of profits. [Alternative 2.1A] However, other staff members believe that entities should be required to use the *distributed rate* when the income is earned. [Alternative 2.1C]
14. Mr. Batavick stated that he acknowledges the merits of Alternatives 2.1B and 2.1C but supports 2.1A because it (a) represents a simplistic way for viewing this particular area and (b) supports the convergence effort.

15. Mr. Trott stated that he changed his view after the education session on January 12, 2005. He prefaced his statement by referring to paragraph 33 of Statement 109 and analyzing how these requirements could be applied to situations in which entities are taxed at different rates depending on whether that income is distributed to shareholders. Specifically, the expected means of resolving a tax consequence may eliminate a taxable temporary difference (for example, an entity might expect to pay a liquidating dividend with no tax consequences, rather than distribute a dividend that has negative tax consequences). These expected means of resolving tax consequences should be considered when determining whether there is a tax consequence related to differences between the distributed and undistributed tax rates.
16. Mr. Trott acknowledged that he supported Alternative 2.1A at the education session because of the period of time between an entity's earnings and distribution(s) to shareholders. At that time, he believed that the two-event approach was practical. However, after relooking at Statement 109, he noted a number of temporary differences that have similar timing differences (for example, tax basis differences with respect to land and LIFO reserves). Although the period of time can be quite long and is under the control of the reporting entity, these temporary differences would be deferred tax assets or deferred tax liabilities. Therefore, he believes Alternative 2.1C is the most consistent with Statement 109. As for simplification, Mr. Trott stated that Alternative 2.1C is equally or more simple than Alternative 2.1A because Alternative 2.1C does not require an entity to determine when there is an obligation to distribute.
17. Ms. Seidman questioned whether Alternative 2.1A or Alternative 2.1C was consistent with the IAS 12's treatment of deferred tax assets and liabilities. Mr. Trott replied that he believes that analysis would lead the IASB to Alternative 2.1C.
18. Ms. McGeachin added that the IASB did not believe that their decision to use an undistributed rate was inconsistent with IAS 12. IAS 12 also uses a temporary difference approach. The IASB views Issue 2.1 as a matter of measuring the deferred tax assets and liabilities that arise from the temporary differences that exist within the entity. The IASB's view in their previous deliberations of this issue

was that the undistributed rate should be used and that the effects of a distribution should be recognized only when the distribution itself is recognized.

19. Mr. Cassel stated that while the selection of the rate clearly will be applicable to the measurement of the consequences of temporary differences, this issue is not limited to temporary differences. He added that it is easier to focus on the concept if the issue is considered in a fact pattern in which there are no temporary differences (that is, all of the financial reporting and tax bases of the assets and liabilities are the same). In a taxing jurisdiction where there is a difference in the distributed and undistributed rates, the initial payment of current taxes is at a rate that is different than how the taxing authority will view the events in the period of subsequent dividend payment (setting aside the question of whether the entity can avoid a dividend payment when it has a negative tax consequence). Assuming the dividend payment results in a positive tax consequence, an entity could get a refund of taxes if it pays a dividend.
20. Mr. Cassel indicated that the argument in Alternative 2.1A (that is, that there should be an obligating event on the part of the taxpayer) is not consistent with the accounting for other scenarios in which an enterprise makes a refundable security deposit, and in order to be entitled to the return of its deposit, that enterprise must meet certain performance obligations. In those scenarios, there is an obligation to perform under the contract and that analogizing to Alternative 2.1A would lead to writing off the initial deposit as an expense and then waiting for the performance condition to be satisfied before recognizing an asset—an accounting result that Mr. Cassel believes is inappropriate. He added that when the distributed rate is less than the undistributed rate, the difference could be considered a deposit that the taxing authority is obligated to return when an entity distributes its earnings. If the undistributed rate is less than the distributed rate, a similar analogy could be made for the future negative tax consequence that will occur upon the distribution of dividends.
21. Ms. Schipper asked Mr. Cassel whether he agreed that an entity should be required to analyze whether it could avoid the tax effects of a dividend distribution. Mr. Cassel responded that he believes that an entity would try to avail

itself of distributing income without a tax effect when there is a potentially negative taxable effect (that is, when the distributed rate is higher than the undistributed rate). Mr. Cassel added that the difference between the undistributed and distributed rates is not part of the definition of a temporary difference from the perspective that there is not a difference in tax basis, which is the traditional definition of a temporary difference. The question is whether there is a deferred tax asset or liability that relates to whether there will be a taxable event in the future. In some situations, entities should consider whether there are legitimate tax strategies that they can employ to minimize or avoid those tax consequences that are negative and maximize those tax consequences that are positive.

22. Mr. Trott stated that he appreciates Ms. McGeachin's views about how the IASB concluded that the use of the undistributed rate is consistent, but he disagrees. He added that he is troubled by Alternative 2.1A because the tax consequences of the earnings are not fully accounted for when those earnings occur. The accounting model in Statement 109 does not delay the recognition of a deferred tax asset or liability until a second event occurs.
23. Ms. McGeachin stated that the IASB's discussions were more focused on the situation in which an enterprise has a deferred tax liability. She stated that she agrees with Mr. Cassel's analysis of a deferred tax asset (paragraph 20) and agrees that even if an enterprise does not have any temporary differences, it would still need to consider whether there are other tax consequences that should be accounted for. She added that this issue, along with Issue 2.2, may result in the IASB reconsidering its decision to use the undistributed rate for a single entity.
24. Ms. Schipper thanked the staff for providing Memorandum 10 and thanked Mr. Cassel for clarifying the issue by focusing on the asset side of the arrangement and considering a situation in which there are no differences between the tax return and the financial statements except the difference between the undistributed and distributed rates. She added that with this additional analysis, the answer becomes extremely clear in the context of Statement 109—an entity's financial statements should report to the shareholders the funds that are available to them, taking into account any gate (that is, taxing authority) that those funds have to pass

through. That gate may be advantageous or disadvantageous from a shareholder's perspective. Ms. Schipper concluded that she prefers Alternative 2.1C because it is the alternative that is the most conceptually grounded.

25. Mr. Young stated that the normal way to look at Issue 2 from an investor's perspective is that remitted dividends are the same as earnings because the purpose of foreign investments are to return capital or cash flow earnings to the shareholders. In other words, this only matters when there is a mismatch between remittance of the dividends and the foreign subsidiary's earnings. Alternative 2.1C is the approach that captures the benefit (or the cost) of the mismatch and is a better representation for investors of the true state of their operations (even in the context of a single entity).
26. Ms. Seidman stated that she will not object to Alternative 2.1C; however, she observed that it is quite complex to express. If an entity would be required to consider its ability to avoid having to pay tax at a higher rate and an exception to using the distributed rate is provided for the unremitted earnings that the parent company asserts are permanently reinvested, Ms. Seidman stated that she believes Alternative 2.1C is not that different from Alternative 2.1B.
27. Mr. Cassel replied that the difference between Alternatives 2.1B and 2.1C is a significant timing issue. Under Alternative 2.1B, an entity would use the distributed rate when a distribution is expected; however, the expectation of a dividend could be years after the event that is considered to be appropriate recognition under Alternative 2.1C (that is, the earning of income). He added that in terms of communication or understandability, there may not be much difference between Alternatives 2.1C and 2.1B; however, in terms of consequence, there is a difference.
28. Mr. Trott stated that he looked at whether the distributed rate or the undistributed rate should be used in conjunction with the foreign earnings exception in Statement 109. With the foreign earnings exception, he concluded that he does not believe that the Board can reach a decision on a rate that should be used in all circumstances (that is, there will be exceptions to the use of the distributed rate).

29. Mr. Crooch agreed with those that support Alternative 2.1C. Mr. Herz indicated that he prefers Alternative 2.1A but does not object to Alternative 2.1C. Mr. Batavick stated he also will not object to Alternative 2.1C.
30. Mr. Herz asked whether any Board members objected to Alternative 2.1C. No Board members objected.

Issue 2.2: Should a Parent Company Always Use the Same Rate As Its Subsidiary?

31. Ms. Posta stated that, in theory, the staffs believe that the same rates should be used by single reporting entities and their parent companies. However, the Boards' decision to retain the foreign earnings exception presents complications to that generality that may need to be considered.
32. Specifically, Ms. Posta added that the assertions of the parent may be perceived as being inconsistent with the assertions underlying the rate used by its foreign subsidiary. Some are troubled by this disconnect, because on the one hand, all (or a portion of) the earnings of a subsidiary are represented as qualifying as permanently reinvested (that is, the parent asserts that it plans to permanently reinvest that subsidiary's earnings), and on the other hand, the subsidiary is effectively asserting that its income will be distributed to its shareholders (by using the distributed rate).
33. Ms. Posta suggested that the Board members consider whether they believe that this is an inconsistency that should further be explored, or whether the distributed rate should be required regardless (and the potential inconsistency acknowledged). Board members supported further exploring the inconsistency.
34. Ms. Posta introduced two practical alternatives for the consolidated statements of an entity that owns a controlling interest in a subsidiary:
 - a. Approach 1 is that in the consolidated statements, the distributed rate would be used except if (1) the parent company does not provide deferred taxes because of the unremitted foreign earnings exception and (2) the

undistributed rate is higher than the distributed rate. If those two conditions are met, the undistributed rate should be used.

- b. Approach 2 is that in the consolidated statements, the distributed rate would be used except to the extent that the parent company asserts that its portion of its subsidiary's earnings are permanently reinvested, in which case the undistributed rate would be used (that is, adjusted in consolidation) for that portion.
35. Ms. Posta concluded that the staffs recommend the second of those two approaches for purposes of the consolidated financial statements (that is, that a foreign subsidiary uses the undistributed rate in measuring the deferred tax expense [or benefit] for the period that is recognized in the consolidated statements for that operation to the extent that a subsidiary's earnings qualify for the unremitted foreign earnings exception to deferred tax accounting in Statement 109). Additionally, for purposes of the subsidiary's stand-alone financial statements, the staffs recommend that to the extent that a foreign subsidiary's earnings qualify for the unremitted foreign earnings exception by its controlling interest, a foreign subsidiary disclose that fact and the difference in the tax expense (or benefit) for the period that would result from the use of a different rate. Ms. Posta also noted that both Approach 1 and Approach 2 would result in retaining the use of the distributed rate in a foreign subsidiary's stand-alone financial statements, even if its controlling shareholder qualifies for the unremitted foreign earnings exception for all or part of its subsidiary's earnings.
 36. Mr. Trott stated that he supports the second approach because it is consistent with the approach for providing deferred taxes on foreign earnings.
 37. Mr. Herz asked the staff to explain the disclosure in the subsidiary's financial statements and who would be using that information. Ms. Posta responded that the parent ultimately controls the subsidiary and information about the use of different rates and the parent company's intentions is useful for other (noncontrolling) users of the information of the subsidiary. Mr. Herz concluded that the disclosure might be useful from a cash flow point of view.

38. Ms. Seidman stated that she agrees with the second approach. Mr. Herz asked if any of the Board members disagreed with the second approach, and no Board members did. All Board members also agreed with the disclosure requirements.

Section 3: *More Likely Than Not Versus Probable* Criterion

39. Ms. Posta stated that the third item relates to the IASB's decision related to the definition of the IASB's *probable* criterion in IAS 12 as compared to Statement 109's *more likely than not* criterion for recognition. Paragraph 17 of Statement 109 requires each tax paying component to "Reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is *more likely than not* (a likelihood of *more than 50 percent*) that some portion or all of the deferred tax assets will not be realized." Paragraphs 24 and 34 of IAS 12 require recognition of a deferred tax asset for all deductible temporary differences, carryforwards of unused tax losses, and unused tax credits *to the extent that it is probable* that taxable profit will be available against which those benefits can be utilized.
40. Ms. Posta reported that, at its April 2003 meeting, the IASB agreed that the threshold for recognition should be *more likely than not*. Therefore, the IASB agreed to amend IAS 12 to clarify that *probable* means *more likely than not*, consistent with Statement 109.

Section 4: Other Convergence Issues Identified

41. Ms. Posta stated that, in the fourth item, the staff would like the Board to consider whether to expand the project scope to include other differences between Statement 109 and IAS 12. The staffs sought to identify the population of differences in recognition and measurement, keeping in mind that the objective of this joint project is to reduce or eliminate noncomparability by reconsidering the narrow set of provisions in Statement 109 and IAS 12 that give rise to it. The staffs compared the recognition and measurement requirements, paragraph by paragraph, of Statement 109 and IAS 12. Additionally, the staff solicited feedback from subject matter experts in the project's working group.
42. Ms. Posta stated that the staffs identified two other differences between Statement 109 and IAS 12:

Graduated tax rates. Statement 109 requires the use of the average rate only if graduated tax rates are a significant factor; whereas, IAS 12 requires the use of an average rate anytime that there are different levels of taxable income.

Accounting for the recognition of an acquirer's deferred tax benefits as a result of a business combination. Under IAS 12, such benefits are accounted for outside of the business combination (that is, in the income statement), while under paragraph 266 of Statement 109, such benefits are accounted for within purchase accounting.

43. Ms. Posta concluded that the staffs recommend that these two differences be added to the scope of this project.
44. Ms. Posta also noted that the staffs identified a number of topics for which Statement 109 provides guidance but IAS 12 does not. The staffs plan to ask the IASB to consider whether to add the guidance that is in Statement 109 (and potentially related guidance from other U.S. GAAP sources, such as the EITF) on each of those topics.
45. Mr. Trott stated that for the second difference (that is, the accounting for the recognition of an acquirer's deferred tax benefits as a result of a business combination), the Board should attempt to reach the converged answer. He believes that Statement 109 is the preferable answer in the context of the decisions reached in the joint IASB/FASB purchase method procedures project. For the first topic (that is, graduated tax rates), Mr. Trott indicated that he believes this project presents an opportunity to use the same words, but there is not a substantive difference between Statement 109 and IAS 12.
46. Ms. Seidman and Mr. Batavick agreed with Mr. Trott's analysis of both topics.
47. Ms. Schipper stated that if the Board agrees that it would make sense to approach whether convergence can be reached on the second difference, she hoped that the staff would approach the issue using the reasoning that is in the context of the decisions reached in the joint IASB/FASB purchase method procedures project. Included in the deliberations for that project was a lot of consideration of what is part of a business combination. She suggested that for this determination, the

Boards apply exactly the same reasoning to this particular tax situation as the Boards did in that project. Ms. Schipper added that if she applies only the reasoning in the purchase method procedures document, she believes that the Statement 109 approach (which is to include the tax attributes of the acquirer in the accounting for the business combination) is the conclusion that would be reached.

48. Mr. Herz asked whether all Board members agreed that the second difference (accounting for the recognition of an acquirer's deferred tax benefits as a result of a business combination) should be further explored and that the first difference (graduated tax rates) should be converged through the drafting of the Exposure Drafts. All Board members agreed.

Section 5: Drafting Plans

49. The staff solicited feedback about (a) concurrently issuing Exposure Drafts that propose to amend Statement 109 and IAS 12, (b) using the same words in drafting those amendments (to the extent possible), and (c) not fundamentally restructuring the existing income tax standards through this project.
50. All Board members agreed that (a) the Exposure Drafts that proposed to amend Statement 109 and IAS 12 be concurrently issued; (b) the same words should be used (to the extent possible) in drafting the amendments to Statement 109 and IAS 12 that result from decisions in this project; (c) the existing income tax standards should not be fundamentally restructured through this project; and (d) when the proposed revisions are issued as a final Statement, the amendments will be incorporated into existing guidance.

Follow-up Items:

None.

General Announcements:

None.