

## REVISED MINUTES



**To:** Board Members

**From:** Short-Term Convergence—Income Tax Team (Gagon, Ext. 322)

**Subject:** Reivised Minutes of the July 27, 2004 Board Meeting      **Date:** August 5, 2004

**cc:** Bielstein, Smith, Petrone, Leisenring, FASB Project Team, IASB Project Team, Mahoney, Thompson, Vincent, Sutay, Gabriele, Swift, Polley, FASB Intranet (e-mail)

Topic: Opinion 23 and Steamship Enterprise Exceptions

Basis for Discussion: Board memorandum 4 (Opinion 23 and Steamship Enterprise Exceptions) dated July 16, 2004

Length of Discussion: 10:25 a.m. to 11:00 a.m.(EST)

Attendance:

Board members present:	Herz, Trott, Schipper, Batavick, Crooch, Seidman, and Schieneman
Board members absent:	None
Staff in charge of topic:	Thomas
Other staff at Board table:	Bielstein, Cassel, Golden, Gagon
Outside participants:	Leisenring (IASB), Bugg (IASB, by phone)

**Summary of Decisions Reached:**

The Board discussed whether to reconsider the existing exceptions to comprehensive recognition of deferred taxes for APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*, and U.S. steamship enterprise temporary differences. No decision was reached. The Board directed the staff to conduct additional research on the practical and cost-benefit considerations of computing deferred taxes on unremitted earnings of foreign subsidiaries.

**Objective of Meeting:**

The objective of the meeting was for the Board to decide whether or not to direct the staff to perform additional research on the cost-benefit considerations of eliminating all or some of the Opinion 23 and steamship enterprise exceptions in this short-term convergence project. The objective of the meeting was met.

**Matters Discussed and Decisions Reached:**

Mr. Thomas began the meeting by stating that both Statement 109 and IAS 12, *Income Taxes*, make certain exceptions to the comprehensive recognition principle for deferred taxes. Both standards allow an exception for undistributed earnings and differences in tax basis of an investment in a foreign subsidiary or foreign corporate joint venture that is essentially permanent in duration. IAS 12 also allows an exception for domestic subsidiaries, while Statement 109's domestic subsidiary or domestic corporate joint venture exception principally relates to those differences which arose before December 15, 1992. Mr. Thomas then gave a brief background about the evolution and inclusion of the Opinion 23 exceptions within Statement 109.

Mr. Thomas further stated that the IASB has discussed these issues in its short-term convergence project in three meetings from April to July 2003. He stated that at those meetings, the IASB concluded that an entity should recognize the income tax consequences of *all* temporary differences arising in the consolidated financial statements.

Mr. Thomas then presented the four staff alternatives for the Board to discuss.

Those alternatives are:

1. Direct the staff to perform additional research on the practical and cost-benefit considerations of eliminating all the Opinion 23 exceptions.
2. Retain the bad debt, policyholders' surplus, steamship enterprise, and pre-1992 domestic subsidiary exceptions. Direct the staff to perform additional research on the practical and cost-benefit considerations of eliminating the foreign operations exceptions.
3. Consider eliminating the bad debt, policyholders' surplus, steamship enterprise, and pre-1992 domestic subsidiary exceptions in this project. Retain the Statement 109 foreign operations exception. Ask the IASB to reconsider their tentative decision and adopt a foreign operations exception similar to the exception in Statement 109.
4. Retain the Opinion 23 and steamship enterprise exceptions. Ask the IASB to consider revisiting their tentative decision and adopt a foreign operations exception similar to the exception in Statement 109.

Mr. Thomas stated that while the staff had a divided view on this issue, the staff recommends that the Board accept Alternative 1 and direct the staff to provide the Board with a recommendation for the retention or elimination of the Opinion 23 and steamship enterprise exceptions.

Ms. Seidman asked what the other staff view is concerning this issue. Mr. Thomas stated that the other staff view is that the FASB already knows the practical and cost-benefit considerations concerning this issue as the issues were researched when FASB Statement No. 96, *Accounting for Income Taxes*, and Statement 109 were issued; it is some of the staff's view that further research will not uncover anything new concerning this issue. Mr. Cassel further clarified that a large part of the divided view was over whether this particular issue is appropriate for a short-term convergence project. He stated that the staff conceptually agreed upon the same answer but was divided about whether this issue could be addressed within the time constraints of a short-term convergence project.

Mr. Trott stated he assumed the divided view also considered that a debate would arise about the appropriate measurement attribute for measuring any

deferred taxes associated with these transactions. Mr. Cassel agreed and stated that if the FASB were to address these issues, an inevitable discussion with constituents would be about discounting. He stated that even if it is the FASB's view that discounting should not be an issue, many constituents still believe deferred taxes should be discounted, which would require the FASB to consider discounting in this project. He stated that discounting was not within the scope of the initial short-term convergence project and should not be discussed.

Mr. Cassel stated he supported Alternative 4, as opposed to Alternative 3, for two main reasons. First, he believes that the other Opinion 23 exceptions in Statement 109, which have been eliminated on a prospective basis, will eventually take care of themselves naturally. Second, he believes that as long as there are different effective dates or transition requirements on a prospective basis for various documents and issues, true convergence will be difficult to achieve.

Mr. Batavick stated that the basic definition of a short-term convergence project is getting a high-quality solution in a short time period. He believes that this issue of recognizing deferred taxes for foreign subsidiaries has been looked at a number of times and that nothing has likely changed; therefore, if the staff looked more in depth at this issue, he is not confident that any new information will arise that will cause the Board to change previous decisions. Therefore, he stated that he supports Alternative 4.

Mr. Leisenring stated that he has been told that calculating deferred taxes for foreign subsidiaries can, in fact, be done. If that is true, he believes that entities should account for those deferred taxes. He stated that the IASB will have a hard time agreeing that it is too difficult if there is no documentation to support that assertion.

Mr. Cassel stated that during a task force meeting, subject matter experts were asked if anything in the tax law had changed since Statement 109 was issued that would affect the deferred tax calculation for foreign subsidiaries. He stated that the answer was no. Therefore, he believes that nothing has changed unless

computing power has changed that would make calculating deferred taxes for foreign subsidiaries more feasible.

Mr. Trott stated that he believes that part of the complexity of calculating a deferred tax is the sequencing of events and trying to determine the appropriate rate at which to measure the deferred tax. If the FASB sets forth a requirement to calculate deferred taxes for foreign subsidiaries, the FASB will have to provide guidance on appropriate sequencing. He doesn't believe the complexity has gone away and believes the FASB can use its resources elsewhere. Therefore, he supports Alternative 4. Mr. Schieneman agreed with Mr. Trott's remarks and also supports Alternative 4.

Mr. Leisenring reiterated his belief that the IASB will have a hard time accepting the FASB's answer that it is too complex if there is no documentation or research to support that conclusion.

Ms. Bielstein stated that it does not appear that the IASB has received any evidence from constituents that would refute the research and work the FASB has done in the past. Mr. Cassel further stated that the FASB has several comment letters from constituents explaining the complexity and asked if the IASB had any letters from constituents that explain why calculating a deferred tax is not complex that the FASB could consider.

Mr. Golden stated that he believes constituents would argue that FASB standards have become more complex over time. Therefore, he wonders if the cost-benefit equation has evolved since Statement 109 has been issued. He stated that since Statement 109 was issued, the FASB has issued several standards that require a great deal of assumptions and estimates to be made, and he questions if constituents would now be able to calculate deferred taxes when historically it was seemingly too complex. Therefore, he stated that he favors Alternative 1 to allow the staff to research the issue further and to make a determination at that time if it is still too complex to calculate deferred taxes for foreign subsidiaries.

Ms. Schipper agreed with Mr. Golden's comment and stated that constituents are required to take into account the uncertainty about timing when measuring an asset retirement obligation, which may be several years in the future. Mr. Cassel pointed out that asset retirement obligations go through a present value calculation. He believes that discounting will have to be discussed if this issue is considered further, which is not within the scope of this project and may be difficult to discuss with constituents that believe discounting is appropriate.

Mr. Crooch asked the staff what further steps it could take to research the issue further if the Board decided to choose Alternative 1. Mr. Thomas stated that the staff and Board could work with preparers to walk through the costs of calculating these deferred taxes, discuss discounting with constituents, and understand if current information systems support calculation of these deferred taxes.

Mr. Crooch stated that since this is a convergence issue and he believes that the FASB should have its feet firmly on the ground concerning this matter, he supports Alternative 1 to allow the staff to further research the issue.

Ms. Seidman stated that she initially supported Alternative 4, but based on the discussion at the Board meeting, she would be willing to let the staff research this issue further. Therefore, she said she supports Alternative 1 but would not object to Alternative 4. Ms. Schipper agreed with Ms. Seidman.

Mr. Herz stated that he believes that Alternative 4 is the more appropriate approach for practical and other reasons. However, he is not opposed to letting the staff discuss this issue further with constituents and the IASB to determine the complexity of this issue. He isn't convinced anything new will be found, but believes it may be beneficial to at least address this issue again with the IASB.

Mr. Herz also stated that he believes the staff should only focus on the foreign subsidiary exception. Other Board members agreed with Mr. Herz that the staff should limit the research to foreign subsidiaries. Ms. Schipper, however, believes all the exceptions should be addressed further.

**Follow-up Items:**

The staff will conduct additional research on the practical and cost-benefit considerations of computing deferred taxes on unremitted earnings of foreign subsidiaries. The staff plans to work with preparers to walk through the computation mechanics to understand the current practical considerations and related costs of calculating deferred taxes on unremitted earnings of foreign subsidiaries. After conducting additional research on the issue, the staff will make a recommendation to the Board about whether or not the foreign subsidiary exception in Statement 109 should be eliminated.

**General Announcements:**

None