

Letter of Comment No: 4)
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September 9, 2005

Ms. Suzanne Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merrit 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: File Reference No. 1215-001 Exposure Draft - Proposed Interpretation

Accounting for Uncertain Tax Positions
An interpretation of FASB Statement No. 109

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the Financial Accounting Standards Board ("FASB") Exposure Draft of the Proposed Interpretation of Accounting for Uncertain Tax Positions an Interpretation of FASB Statement No. 109 (the "Proposed Interpretation").

We have assisted over 50% of the "Fortune 500" companies with their Sarbanes-Oxley (SOX) Section 404 compliance efforts. We have noted, that as a direct consequence of SOX, financial reporting processes relating to income taxes are currently undergoing unprecedented change to comply with the standards set forth by the Public Company Accounting Oversight Board ("PCAOB"). With the phased implementation of SOX for reporting companies, we believe it would be prudent to delay the effective date of implementation of the Proposed Interpretation to at least 2007. Income taxes has been highlighted as an area of concern where material weaknesses have been frequently noted and many companies are undergoing significant efforts to remediate existing processes to be SOX compliant.

PCAOB Auditing Standard No. 2 ("AS-2") defines a "material weakness" as follows:

"..a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be detected."

A "significant deficiency" is defined by AS-2 as follows:

"..a control deficiency, or combination of deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with GAAP such as there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be detected."

The PCAOB recently commented that of the largest public companies filing their first assessments of their internal controls over financial reporting along with the related reports from their auditors under SOX Section 404, those involved found implementation challenging, costly and burdensome.

¹ PCAOB Standard Advisory Group Meeting, June 8-9, 2005



The PCAOB went on to note that as of May 15, 2005 approximately 12% of reporting companies had material weaknesses. The most frequently cited effect of the reported material weaknesses was significant year-end or auditor initiated adjustments, *Tax accounting*, and revenue recognition (emphasis added).

This trend appears to be continuing as The Corporate Executive Board recently reported² that material weaknesses related to tax accounting continues to be highlighted in more recent report filings.

We have observed several common themes in control weaknesses related to income taxes:

- Supporting substantiation for reported valuation allowances
- Income tax reporting for foreign subsidiaries
- Reconciliation procedures between book and tax basis balance sheets
- Lack of adequate tax personnel

We have also noted that prior to SOX, that many companies may have erroneously maintained a portion of their tax reserve accounts for uncertain tax positions to compensate in part or in whole for the lack of precision that may have resulted from errors due to inadequate supporting financial reporting processes relating to income taxes.

Evidence continues to emerge that suggests many companies lacked rigorous financial reporting processes in accordance with the basic requirements of FAS 109 prior to SOX.

The current environment presents a strong argument to allow companies time to transition and adjust to the new SOX audit standards.

In the interim, we urge continued dialogue on the proposed interpretation. We also believe that a broader and more informed constituency is emerging within reporting companies who may wish to weigh in with their comments as financial reporting processes relating to income taxes continue to evolve.

We welcome the opportunity to further discuss our comments and views with the FASB or their staff.

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Sincerely,

ESSC MUSAS

Director

Subject Matter Expert - Jefferson Wells Tax Accounting Services

JR

² Corporate Executive Board Controls Weakness Disclosure Alert, July 15 Through August 17,2005.