

Letter of Comment No: 40
File Reference: 1215-001
Date Received: 9/12/05

Joseph A. Householder
Vice President, Corporate Tax
and Chief Tax Counsel

101 Ash Street, HQ17
San Diego, CA 92101-3017

Tel: 619.696.4576
Fax: 619.696.4577
jhouseholder@sempra.com

September 12, 2005

To: Technical Director
Financial Accounting Standards Board

Re: Interpretation of FASB Statement No. 109
Accounting for Uncertain Tax Positions
Exposure Draft of Proposed Interpretation
File Reference No. 1215-001

I thank the Board for proposing guidance in the evolving area of accounting for income taxes. While my initial reaction, like that of many of my peers, was to oppose the Exposure Draft in its entirety, upon further reflection and analysis, I realize the Exposure Draft includes both positive and negative aspects. My comments are limited to two points that I believe are critical to maintaining both rational financial accounting and a strong and vibrant U.S. economy.

The proposed asset model may provide for more accurate accounting, thereby, a more level playing field, by eliminating the recording of tax benefits with no realistic probability of realization. It is in no one's long-term interest for a company to mask its poor performance through aggressive tax planning and possibly displace a stronger performing company. I support the asset model for that reason.

While I support the asset model as a concept, I do not support the higher threshold that has been proposed for what constitutes "probable." Based on my 25 years of tax practice, including as Vice President of Tax for two Fortune 500 companies and as a national partner of PricewaterhouseCoopers, I agree with the two Board members who believe the higher threshold would lead to the "systematic overstatement of tax liabilities" followed by "systematic reversals of such recorded liabilities . . ." This will most certainly lead to an improper matching of the proper tax liability with its respective pre-tax income.

Based upon my recent experience dealing with both accounting and law firms in the area of providing opinions on unresolved or new tax laws, it is highly unlikely that many organizations will be able to meet the high threshold being proposed by the Board on the great majority of tax issues they are involved with on a day-to-day basis. The administration of the tax laws at the federal, state and international levels is more of an art than a science – there are far too many ambiguities, complexities and other uncertainties for any firm, in-house professional, or even government advisor to reach the "should" level of opinion under the ever more strict rules for opinion practice. To eliminate the likelihood of these systematic accounting problems, I would strongly

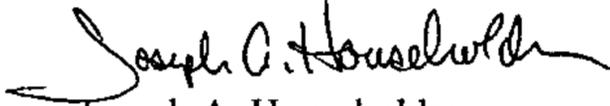
Technical Director
Financial Accounting Standards Board
September 12, 2005
Page Two

support the Board's consideration of remaining with the "more likely than not" threshold. In the tax community the "more likely than not threshold" is well understood, and it would be consistent with the long-standing FAS 5 contingent liability approach. Your asset model would eliminate the recording of some amount of tax benefits that may have, for one reason or another, overstated the probable benefit if the organization did not record a contingent liability against it, but this approach will provide better consistency with the past and will avoid the likely understatements and reversals that would be caused by the use of a probable threshold that is not well suited to the area of taxation. Matching will also be improved.

Lastly, the use of the probable threshold and the likely resulting systematic accounting problems referred to above will erode the quality of the company's earnings, cash flow and balance sheet going forward. This erosion will negatively impact investor confidence and ultimately stock market valuations.

I would recommend to the Board a reconsideration of the effective date for this proposed interpretation as I believe the Board will receive many comments and this important topic is worthy of further consideration.

Sincerely yours,


Joseph A. Householder