

PPG Industries, Inc.
One PPG Place Pittsburgh, Pennsylvania 15272

Letter of Comment No: 23
File Reference: 1215-001
Date Received: 9/12/05

September 9, 2005

William H. Hernandez

Sr. Vice President, Finance

VIA E-MAIL

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: File Reference No. 1215-001

Dear Sir or Madam:

PPG Industries, Inc. (PPG) is pleased to submit its comments on the exposure draft of the Proposed Interpretation, "Accounting for Uncertain Tax Positions, an interpretation of FASB Statement No. 109." PPG is a Fortune 500 company and a leading global producer of coatings, glass, and chemical products. PPG employs approximately 31,000 employees, worldwide.

While there may be some examples of companies that have taken aggressive tax filing positions and misrepresented their financial positions and results of operations, we believe that those are exceptions and not the rule. When these problems have occurred, they are more likely the result of poor judgment being exercised by management and the outside auditors than by any shortcoming in FAS 109. The Sarbanes-Oxley Act of 2002, which has raised the bar in terms of senior management accountability for the accuracy of reported financial performance, should help address these problems. We believe that FAS 109 provides sufficient guidance on accounting for income taxes and that its application, like that of many other financial accounting standards, requires the application of management judgment and the use of estimates. We believe that the Proposed Interpretation will add effort and cost of compliance to many companies that have been appropriately applying FAS 109 while adding no real value to the users of their financial statements and will do little to impact the judgment of management of other companies who are inclined to record the benefit of aggressive tax filing positions in advance of being assured that they will be realized. We do not believe that the Proposed Interpretation is needed.

If you decide to proceed and issue a standard on accounting for uncertain tax positions, we believe that the Proposed Interpretation is overly formulaic in its attempt to replace management judgment with calculations based on subjective judgments. We do not believe this approach will produce a better result. Our views on specific issues raised in the exposure draft are as follows:

Initial Recognition (Issue 2)

We are typically subject to approximately 20-30 income tax audits per year and we already assume that we will be audited on all major uncertain tax positions. However, we believe that the Proposed Interpretation should provide that the likelihood of an uncertain tax position will be audited is a factor that should be considered in establishing appropriate tax liabilities. This is

Technical Director September 9, 2005 Page 2

especially relevant to the confusing standards of nexus or permanent establishment that define when a tax return filing obligation exists. As other commentators have discussed, it appears that the Proposed Interpretation would require perpetual tax liabilities for these uncertain tax positions. If the risk of a tax audit was a factor to be considered, the tax liabilities for these uncertain tax positions could be reduced over time, providing more accurate financial information.

Initial Recognition (Issue 3)

We recognize that the probable standard may negate the financial reporting impacts of aggressive tax postures at the time they are taken. However, the tax law is very unclear in many "day-to-day" matters which could result in the recording of excessive tax liabilities followed by very large tax liability releases into income after audit. Other commentators have provided examples of these kinds of issues and we do not readdress them here. We believe it is not helpful to prescribe a standard that will likely result in unnecessary volatility in reported earnings.

Measurement (Issue 6)

We believe that an undiscounted "best estimate" or "expected value" standard would provide the best approximation of deferred tax liabilities and expenses. We believe this simple "principles based" standard would be preferable to the proposed two-step process of recognition and measurement that, in many cases, will not present the best estimate.

All relevant facts should be considered together in making the best estimate determination. These include (1) degree of clarity of the statutes, regulations, and case law, (2) qualitative considerations as to facts and circumstances, (3) new legislation, (4) the potential that issues and or returns will not be audited, and (5) the entity's experience with audits in the jurisdiction or other jurisdictions.

If a two step process of recognition and measurement is desired, we believe a "substantial authority" filing position (believed to be about 30% confidence and the level that typically precludes the assessment of penalties by tax authorities) should exist prior to recording the benefit of an uncertain tax position. We do not believe that a two-step process of recognition and measurement is necessary, however, because the simple, principle-based approach suggested above includes notions of both recognition and measurement.

Classification (Issue 7)

We strongly disagree with Paragraphs 13, A22, and A23, which require the recording of a deferred tax asset or liability attributable to uncertain temporary differences. The proposed treatment of these items would have no impact on tax expense and would simply be a balance sheet reclassification. The amount of time and effort required to make these reclassifications and track these items over time could be very substantial and the benefit to users of the financial statements would be minimal.

Effective Date and Transition (Issue 11)

Given the level of detailed analysis that would be required of companies by this exposure draft, the effective date as of the end of the first fiscal year ending after December 15, 2005 would not give sufficient time for implementation, especially for calendar year companies. The effective date of this exposure draft should be for years beginning at least six months following the final issuance in order to give ample time for complete and accurate implementation by all companies.

Unit of Account and the Two-Step Process (Appendix A)

We believe that the R&D credit example in Appendix A highlights the problems with the Proposed Interpretation. In the example, the entity claims an R&D credit for \$10 million for four projects and believes \$5 million will be sustained on audit. We believe that the Proposed Interpretation should allow the company to record the \$5 million benefit (and set-up a tax liability for \$5 million) because that is their best estimate supported by the available facts.

Under the Proposed Interpretation, several different answers could result depending on how the unit of account is defined. In practice, R&D credit computations are many times performed by aggregating R&D function cost centers and the R&D projects involved could number in the hundreds. In this typical situation, would this be one unit of account or hundreds of them? If the company was unable to perform the project-by-project analysis described in the Proposed Interpretation, would the R&D credit be one unit of account resulting in none of the R&D credit benefit being recognized because the expected outcome was only 50%? Also, could a qualifying activity in the "weaker" projects 3 and 4 be separately identified and create even more units of account to consider? Finally, if a company has used the same computation methodology for the R&D credit for a time and has established audit experience, could this experience be used to develop an appropriate tax liability as a single Unit of Account?

The differing answers suggested by the example are summarized in the following table. We believe these varying treatments under the same fact pattern are indicative of the issues inherent in an Interpretation that may be too formula based.

Unit of Account Measurement Exposure Draft, Paragraphs A2- A11	Original Benefit (Tax Asset) Recorded	Tax Liability Recorded	Reversal of Tax Liability to Income
One Unit of Account	0	10	5
4 Project Units of Account	4.5	5.5	.5
6 Separate Units of Accounts (4 Projects and Isolation of Qualifying Activity in Two Weak Projects)	5	5	0
One Unit of Account, Able to Use Audit History	5	5	0

Technical Director September 9, 2005 Page 4

If the dual threshold standard/two step process is retained, it is especially important that it be made clear that a position or a unit of account can be interpreted in aggregate across many similar returns (US states for example) so that exercises of judgment can be made based on averages or expected outcomes across a wide number of returns and issues. The final Interpretation should include examples that make clear that such reasonable approaches are acceptable.

We understand the Board's need to occasionally add clarification to existing standards through the issuance of Interpretations. However, we are concerned that this Proposed Interpretation, as it is currently drafted, will not reduce the diversity in practice regarding uncertain tax positions and will be extremely difficult to apply.

Ľŝ

Thank you for the opportunity to express our comments. Should you have any questions regarding our comments, please contact David Navikas, Vice-President and Corporate Controller, at 412-434-3812.

Sincerely,

winan N. Alemann

cc: John Kolling Kip Kuzior David Navikas Brian Williams