

**THE WILLIAMS COMPANIES**

**Tulsa, Oklahoma**

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We are pleased to comment on the Financial Accounting Standards Board's Exposure Draft on the Proposed Interpretation on Accounting for Uncertain Tax Positions, an interpretation of FASB Statement No. 109 (the Interpretation).

While we appreciate the objective of greater comparability in the financial reporting of income taxes, we believe the approach of recognizing a tax position only if that position is probable of being sustained on audit as presented in the Interpretation would not improve financial reporting. We believe the Interpretation (a) would be complex, (b) would be difficult and burdensome to apply in practice, and (c) would not increase comparability in accounting for income taxes. In many situations, liabilities will be recognized assuming disallowance of an entire tax position, when in fact it is likely that only a portion of the related tax benefit will not be sustained. This resulting overstatement of tax liabilities and their subsequent reversal as an entity's tax returns are settled will result in significant fluctuations in the provision for income taxes and effective tax rate.

Alternatively, we support an approach as discussed in paragraph B47 of the Interpretation. The benefits of uncertain tax positions would be recognized for tax positions that meet the threshold to avoid statutory penalties under the applicable tax law (for U.S. federal income taxes, when the tax position meets the "substantial authority" threshold, it may be included in the tax return without specific disclosure). The benefit of such positions would be reduced by recording a liability for the contingency that the taxing authorities may assert a claim for additional taxes. The liability for such contingency would be for an amount representing the best estimate of expected payments (including interest) to the taxing authorities. We support a best estimate measurement based on an undiscounted expected value that considers possible outcomes and their associated probabilities of occurrence. Applying this approach allows consideration of all pertinent information in developing an estimate of the potential exposure from the

contingency. Conversely, a liability for all of the benefit (plus interest and penalties) would be recorded for tax positions that failed to meet the standard for avoiding penalties.

We believe that recording a benefit for tax positions taken in a tax return is appropriate as the requirements for preparing and filing a tax return in the various tax jurisdictions are sufficiently substantial to evidence that a verifiable taxable event has occurred. The tax legally owing is the amount required to be reported on the tax return. To assess additional taxes, the taxing authorities must make a claim through a defined process.

Further support that the filed tax return provides substantial evidence of the tax liability for the jurisdiction involved are the following:

- Many tax jurisdictions are based on a system of self-assessment, in which a tax return is filed and taxes reported under applicable laws. The taxing authorities can assess additional taxes only by making a claim against the taxpayer,
- The Internal Revenue Service (IRS) issued regulations requiring disclosure of certain tax positions to the Commissioner,
- Under the American Jobs Creation Act of 2004, the IRS was granted authority to impose penalties for not disclosing certain positions taken in a tax return, and
- Substantial penalties can be imposed for inaccurate tax returns that result in underpayment of taxes.

The implementation and application of the Interpretation would be significant in terms of time and cost. Tax return positions for open tax years must be reviewed to assess if the position meets a probable level. Companies would have to develop new procedures and controls for their analysis, as previously there likely was no need to perform a "should" level analysis on most positions taken on the return.

Also, diversity exists in practice in how tax experts apply the "should prevail" standard in tax opinions. Authoritative standards do not exist by which the "should prevail" standard can be consistently applied.

If the FASB continues with their approach in the Interpretation, we suggest the following modifications:

We believe that the probable threshold in the Interpretation should be changed to a more likely than not threshold. This lower threshold is more representative of the factors entities consider in deciding whether to claim a position on the tax return. Following a probable threshold will result in situations where a position taken on the tax return that is likely to prevail would not be recognized in the financial statements. Using a more likely

than not threshold would also mitigate problems in applying a probable threshold in jurisdictions where the tax laws are less developed.

We believe that defining best estimate as the single most likely amount in a range of possible estimated amounts may not be an accurate representation of the tax position. This definition will result in recorded amounts that do not consider all relevant possibilities and may be materially different from the expected outcome. We propose a best estimate measurement based on an undiscounted expected value that considers possible outcomes and their associated probabilities of occurrence.

We believe that the effective date should be delayed to periods beginning after December 31, 2005. We believe the time and effort required to develop an appropriate analysis to apply the Interpretation will be significant and makes a 2005 adoption impracticable. Also, an Interpretation of this complexity and magnitude of change requires changes to existing processes and related internal controls. Applying an Interpretation issued in late 2005 to the current year creates internal control change, design and assessment issues that would be problematic for calendar year end companies evaluating internal controls under Section 404 of Sarbanes-Oxley.

We appreciate the opportunity to comment on the Interpretation and would be pleased to discuss our views with the FASB or their staff.

Sincerely,

Ted Timmermans  
The Williams Companies  
Vice President Controller and  
Chief Accounting Officer