Private Company Financial Reporting Committee

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 e-mail: jhodell@fasb.org



JUDITH H. O'DELL Chair

September 24, 2007

Mr. Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856



203-956-5218 Fax: 203-849-9714

Re: FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes

Dear Mr. Herz:

The Private Company Financial Reporting Committee ("PCFRC") offers the following recommendation to the FASB related to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). The recommendation represents the unanimous views of the PCFRC members in attendance.

This recommendation is based upon preliminary research conducted by the PCFRC as part of its effort to better understand the issues that private company financial statement users, preparers, and CPA practitioners are facing with the requirements of FIN 48. The preliminary research consisted of responses from certain key constituent organizations, members from key constituent organizations, and individual PCFRC Resource Group members.

The preliminary research unmistakably revealed the need for this recommendation and the need to offer it now, inasmuch as many private company financial statement preparers will soon be addressing the requirements of FIN 48 in their year-end financial statements and incurring costs in that effort. Therefore time is of the essence and immediate action is needed.

Recommendation - The PCFRC recommends that the FASB delay the effective date of FIN 48 for private companies. The effective date should be delayed until 1) clarification and guidance is issued on FIN 48's

implications for pass-through entities, and 2) further consideration is given to the usefulness of FIN 48's disclosure requirements for private companies. Further, this delay will allow for a higher level of awareness and education about FIN 48.

Clarification and Guidance for Pass-through Entities

The PCFRC believes many private company financial statement users, preparers, and CPA practitioners are unaware or just becoming aware of the implications of FIN 48. Importantly, this includes a lack of awareness of FIN 48's applicability to pass-through entities, which applies to many private company structures. Many private companies do not have the resources to follow FASB proceedings and they often learn about new requirements like FIN 48 at continuing education sessions after the effective date. Many public companies are still struggling with implementation issues, based on a BNA Accounting Policy and Practice Special Report ("An Early Look at FIN 48 Disclosures"; July 13, 2007; Vol.3, #6). Thus "best practices" are not in place as examples for private companies.

FASB Statement No. 109, Accounting for Income Taxes, does not directly address pass-through entities. As a result, many private company financial statement preparers and their CPA practitioners are unaccustomed to accounting for income taxes and are unaware of the implications of FIN 48, despite the attempts of many organizations (including FASB) to create that awareness. Clarification and guidance about FIN 48's implications to pass-through entities is needed. A number of issues arise from FIN 48's applicability to pass-through entities, including nexus for state income taxes, the level at which taxes are assessed (owner or entity), and the ramifications of FIN 48's requirements on acquisitions and tax indemnification. FIN 48 may apply to entities to which FASB Statement No. 109 does not apply. The PCFRC believes that pass-through entities will encounter a significant compliance hurdle when assessing the implications of FIN 48.

Accounting consistency, comparability, and financial reporting quality may be less than ideal at pass-through entities as they implement FIN 48, absent further clarification and guidance. For example, if a pass-through entity determines it is necessary to record a liability for an uncertain tax position, what is the debit? Is it a charge to capital or does it run through the income statement? If it runs through the income statement, is it tax expense? Any liability resulting from a tax audit is that of the owners of the pass-through entity — not the entity itself.

Usefulness of Disclosure Requirements

Preliminary research conducted by the PCFRC raises legitimate questions about the usefulness and relevance of the disclosure requirements of FIN 48 to users. Further research is necessary to determine whether the disclosure requirements of FIN 48 provide meaningful information to the lenders, sureties, investors, and others who use private company financial statements.

The PCFRC is continuing its outreach on FIN 48. We are conducting research with key constituent groups to gain additional knowledge about the issues they are facing as they assess the requirements of FIN 48. In particular, we are seeking input from key constituents about the usefulness and relevance of FIN 48's disclosure requirements, the implications for pass-through entities, and the need for implementation guidance. We may issue further recommendations to the FASB, based on the results of our research.

The PCFRC appreciates the FASB's consideration of this recommendation to delay the effective date of FIN 48. Please feel free to contact me if you have any questions or comments.

Sincerely,

Judith H. O'Dell

Chair

Private Company Financial Reporting Committee

Attachments

- August 14, 2007 letter from National Rural Electric Cooperative Association.
- 2. September 18, 2007 letter from National Cooperative Business Association



August 14, 2007

Ms. Judith H. O'Dell, Chair Private Company Financial Reporting Committee 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5115

Re: FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes

Dear Ms O'Dell:

The National Rural Electric Cooperative Association "NRECA" is the not-for-profit national service organization representing approximately 930 not-for-profit, member- owned rural electric cooperatives. The great majority of these cooperatives are tax-exempt distribution cooperatives that provide retail electric service to over 40 million consumer- owners in 47 states. NRECA members also include 65 generation and transmission cooperatives that supply wholesale electric power to their distribution cooperative member-owners.

On behalf of our membership, I am requesting that the Private Company Financial Reporting Committee "the Committee" request that the Financial Accounting Standards Board "FASB" delay in the implementation of FASB Interpretation No. 48 "FIN 48" for private companies including rural electric cooperatives.

Most of our members are tax-exempt distribution cooperatives and have historically relied on their independent auditors or other tax advisors to prepare Form 990 which they are required to file with the Internal Revenue Service. Consequently, few of our members have staff sufficiently familiar with the tax law as it applies to rural electric cooperatives to be able to understand the issues involved with the implementation of FIN 48 and to affirmatively make the assertions required when analyzing potential uncertain tax positions.

As you know, the American Institute of Certified Public Accountants recently clarified the degree of assistance that an independent auditor may provide a client concerning the implementation of FIN 48. One of the requirements of auditor assistance is that the client understands the issues involved and, for the reasons stated above, we are concerned that this degree of understanding might not exist at many of our members.

Consequently, we respectfully request that the Committee consider asking the FASB for a delay in the implementation of FIN 48.

If you have any questions, please don't hesitate to call.

Kind regards,

s/Russell D. Wasson Director Tax, Finance and Accounting c: Paul Glotzer - FASB



September 18, 2007

Judith O'Dell, Chair Private Company Financial Reporting Committee 401 Merritt 7 Norwalk, CT 06856

Re: Financial Accounting Standards Board

Interpretation No. 48 Accounting for Uncertainty in Income Taxes

Dear Ms O'Dell:

We are writing to urge the Private Company Financial Reporting Committee (PCFRC) to ask the Financial Accounting Standards Board (FASB) to delay the implementation of its Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48).

The National Cooperative Business Association (NCBA) is a national association that represents cooperatives operating in every sector of the economy. Our members file taxes under various sections of the Internal Revenue Code, including as tax-exempt organizations under chapter 501c.

While many of our members are large entities with financial and accounting staff, many are small companies that rely on outside accountants and auditors. The new requirements of FIN 48 are very complicated in their implementation, especially for cooperatives that file under chapter 501c as tax exempt organizations. It is unclear why and how FIN 48 should apply to tax-exempt entities but these co-ops will have to pay for more advice and assistance from outside firms. And these same cooperatives are facing a newly designed and more complicated IRS Form 990, which if implemented as proposed also will increase greatly their accounting and auditing costs.

A delay in implementation of the FIN 48 would give cooperatives time to adjust to the new requirements and prepare for the increase in costs it will entail.

We understand the PCFRC is meeting this week. We hope this issue will be discussed. We appreciate any assistance with this request.

Sincerely,

Paul Hazen

Paul Hogen