Dear Mr. Herz:

Since the Board began its deliberations regarding uncertain tax positions, we at CSC have been very concerned with the overall approach and methodology under consideration. We summarized our comments, concerns and suggestions in our September 12, 2005 comment letter to the Board regarding the initial Exposure Draft of the Proposed Interpretation of Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Uncertain Tax Positions". In our letter, we indicated the proposed approach, recognition and derecognition thresholds and measurement methodology would result in systemic and material overstatement of corporate tax obligations. We also felt the proposed approach would be overly complex and difficult to apply in practice.

We commend the Board on its willingness to listen to varying points of view expressed in the public comment process and the subsequent roundtable discussion. We think the Board’s more recent deliberations have resulted in improvements in the approach and methodology, including reducing the recognition threshold to “more likely than not” rather than “probable”, clarifying revisions of previously recognized tax benefits should be based on management’s best estimate rather than any particular triggering event and delaying the effectiveness of the Interpretation to fiscal years beginning after December 15, 2006.

While we continue to think an “impairment model” would be more representationally faithful than the “benefit recognition model”, the change in the recognition threshold should reduce, to some extent, a potential overstatement in enterprise tax obligations. However, we wanted to revisit another important area of concern raised in our comment letter we think has been largely overlooked by respondents to the Exposure Draft: interim period income tax allocation.

At its January 11 meeting, the Board concluded tax benefits of tax positions taken in prior years should be recognized as discrete items rather than incorporated into the
effective tax rate for the remaining interim periods. The staff rationale for this
treatment references paragraphs 19, 20 and 21 of APB Opinion No. 28, "Interim
Financial Reporting" and FASB Interpretation No. 18, "Accounting for Income Taxes
in Interim Periods." However, we think this treatment is wholly inconsistent with the
integral method which, in fact, is required under APB Opinion No. 28.

APB Opinion No. 28 and FASB Interpretation No. 18 excluded only extraordinary
items and unusual items (discontinued operations) which are reported separately net
of tax from the determination of the estimated annual effective tax rate (paragraph
19):

...At the end of each period the company should make its best estimate of the
effective tax rate expected to be applicable for the full fiscal year. The rate so
determined should be used in providing for income taxes on a current year-to-
date basis. The effective tax rate should reflect anticipated investment tax
credits, foreign tax rates, percentage depletion, capital gains rates, and other
available tax planning alternatives. However, in arriving at this effective tax
rate no effect should be included for the tax related to significant unusual or
extraordinary items that will be separately reported or reported net of their
related tax effect in reports for the interim period or for the fiscal year.

Contrary to the staff’s position, the integral method is the long-established, prevalent
method of accounting for income taxes in interim financial statements. We think the
integral method remains the most appropriate and meaningful method of determining
the tax provision in interim financial statements for a number of reasons.

- The inherent inability to determine the actual tax liability for interim periods
  undermines the conceptual validity of the discrete approach. The discrete
  approach is fundamentally impracticable. For example, this would effectively
  require the calculation of the net tax liability for all global tax jurisdictions on
  a quarterly basis, an undertaking which would be totally impracticable for
  most large multinational corporations. For example, in fiscal 2004 alone,
  CSC filed over 12,500 tax returns in 140 countries. The vast majority of these
  were filed on an annual basis.

- Accounting for certain elements on a discrete basis and others on an integral
  basis is not meaningful. Piecemeal application of the discrete approach to
  only certain of the elements involved in the tax provision fails to provide a
  sufficiently comprehensive framework for meaningful representation of a
  company’s tax expense and liabilities at any interim period within the year.

- The integral method is more nearly consistent with the prospective method of
  accounting for changes in estimates. Even changes to estimates of prior year
tax provisions are, in fact, part of the current year’s provision, unless a change
  represents correction of an error sufficiently material to require treatment as a
  prior period adjustment. Income taxes for substantially all jurisdictions are
based on annual tax periods. The tax provision for each year must take into account the uncertain and changing nature and status of events and transactions which will give rise to tax liabilities and benefits throughout the year. A company may execute tax planning strategies, consummate related transactions and take other actions throughout the course of a year which raise or lower tax rates, not only for the current quarter, but also all prior and subsequent quarters in a given tax year. In many ways, accounting for corporate tax provisions is similar to accounting for incentive compensation. Incentive compensation is accrued based on the total projected bonus award by applying a composite percentage factor to the earnings or other relevant objectives recognized each quarter. Similarly, in accounting for corporate taxes, a composite or effective tax rate is developed based on the total projected taxes for the year, taking into account all relevant facts and circumstances and any necessary assumptions. This effective tax rate is then applied to quarterly earnings to determine the tax provision for each quarter.

- Most enterprises generally do not file their tax return for a given year until the third quarter of the following fiscal year. There may be any number of refinements to a company’s tax positions subsequent to the fiscal year but prior to the filing of the return. The resulting tax benefits would be most appropriately recognized by incorporating them into the effective tax rate in the year in which these refinements occurred.

In summary, we believe the integral method best enables the company to incorporate the full range of issues which ultimately affect the company’s tax provision for the entire taxable period. As a result, the integral method in our opinion provides more meaningful, predictive information as to the operating results and outlook of for-profit companies.

Finally, we recommend the Board reissue the Exposure Draft upon conclusion of their re-deliberations to afford another opportunity for public comment. This is critically important given the complexity of the issues and the fairly significant changes to the original Exposure Draft.

Thank you for your consideration of our views. We would be glad to meet with you or your staff to discuss this matter further at your convenience. Please contact Dennis Dooley at (248) 372-3306 or me at (310) 615-4821.

Sincerely,

Michael E. Keane
Chief Financial Officer

cc: Members of the Financial Accounting Standards Board