March 22, 2007

Ms. Suzanne Q. Bielstein  
Director – Major Projects and Technical Activities  
FINANCIAL ACCOUNTING STANDARDS BOARD  
401 Merritt 7  
Norwalk, Connecticut 06851

Dear Ms. Bielstein:

The Financial Reporting Committee ("the Committee" or "the FRC") of the Institute of Management Accountants appreciates the opportunity to provide its views on the Financial Accounting Standards Board ("the FASB") Exposure Draft, FSP FIN 48-a Definition of Settlement in FASB Interpretation No. 48 ("the Exposure Draft" or "the ED"). FRC is the financial reporting technical committee of the Institute of Management Accountants. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We strongly support the Board’s proposal to amend FIN 48 to provide for the "effective settlement" of an uncertain tax position upon the completion of an examination by a taxing authority. We believe that the proposed FSP will result in financial statement reporting for uncertain tax positions that is more representationally faithful and will better serve the needs of users of financial statements.

We have two comments on paragraph 5.c. of the FSP, which provides that a tax position is considered settled if it is "highly unlikely" that the taxing authority would subsequently examine or reexamine any aspect of the tax position included in the completed
examining, "presuming the taxing authority has full knowledge of all relevant information". First, we do not understand the reason for inserting the words "presuming the taxing authority has full knowledge of all relevant information" at the end of criterion 5c. As long as the taxing authority was not misled or denied access to relevant information about a position that it did not choose to review or examine in depth, we believe the relevant considerations in assessing whether an uncertain position has been effectively settled by the closing of an examination by the taxing authorities is adequately and accurately stated in first two proposed paragraph 5 criteria plus the first part of the third proposed criterion. Furthermore, we believe the inclusion of this phrase in the final FSP will only create confusion concerning the Board's intended guidance given the potential interplay between (1) the statement immediately under the criteria in paragraph 5 that "a tax position does not need to be specifically reviewed or examined by the taxing authorities to be effectively settled by examination." and (2) the prohibition on considering detection risk in assessing whether it is more-likely-than-not that the benefit associated with an uncertain tax position will be realized. Therefore, we recommend that this phrase be deleted entirely from the final FSP or modified to refer to the fact that during its examination the taxing authority had access to or was not denied access to all relevant information, even with respect to positions that it chose not to review or examine in detail.

Additionally, it was unclear to us how "highly unlikely" should be defined. Specifically, is "highly unlikely" less likely or more likely to occur than "remote", a term that is used in the accounting literature? Because the term "highly unlikely" is not defined in the accounting literature, it would be more useful for the final FSP to either note that it is "remote" that the taxing authority would reexamine any aspect of the tax position or that it is "probable" that the taxing authority would not reexamine any aspect of the tax position. Even though the "remote" and "probable" term suggestions may result in different accounting, they are clearer than "highly unlikely". Although the conclusions reached by constituents may not change as a result of changing "highly unlikely" to "remote", if you do not change the "highly unlikely" wording, at a minimum, the final FSP should clarify how "highly unlikely" relates to "remote".
We will be pleased to meet with the Board and Staff at its convenience to discuss these issues in more depth and to clarify any comments contained herein.

Sincerely,

Pascal Desroches
Chair, Financial Reporting Committee
Institute of Management Accountants