



STATE STREET.

Letter of Comment No: 14
File Reference: FSPFAS13-A
Date Received:

September 12, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO BOX 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 13-a, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*

Dear Technical Director:

State Street Corporation appreciates the opportunity to submit this comment letter in response to the Proposed FSP FAS 13-a, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*.

State Street Corporation is a financial holding company organized under the laws of the Commonwealth of Massachusetts. State Street, through its subsidiaries, provides a full range of products and services for sophisticated investors worldwide. With \$9.50 trillion of assets under custody and \$1.35 trillion of assets under management as of December 31, 2004, State Street is a leading specialist in meeting the needs of investors worldwide.

The Proposed FSP integrates the two-step recognition and measurement process and the "probable" standard from the Proposed Interpretation of SFAS No. 109, *Accounting for Uncertain Tax Positions* with SFAS No. 13, *Accounting for Leases*. We do not support the "probable" standard and other elements of the Proposed Interpretation and have outlined our views in a separate letter. We believe that the application of the "probable" standard and the two-step process to a leveraged leasing situation is problematic.

We are not convinced that requiring enterprises to recalculate leveraged leases based upon estimates and speculation, as contemplated by the FSP, is an improvement in financial reporting. If, despite the inherent computational difficulties, the FASB wishes to move ahead with this model, then clarification of the application of the probable (or other) recognition standard to tax timing items – particularly in the context of a leveraged lease – is essential.

Clarification of Other Implementation Issues

We feel that the following areas should be clarified.

- *Application of the two-step approach to a leveraged lease*
 - The FASB should provide guidance on the application of the two-step approach and clear definitions of the terms “tax position” and “best estimate” in the context of a leveraged lease. Additional guidance is needed to clarify how the two-step approach would be applied if an enterprise could settle with the tax authority in a way that simply reallocates (defers) a substantial portion of the tax deductions.
- *Definition of a change in the timing of income tax cash flows.*
 - Would the payment or expected future payment of a tax assessment – which an enterprise may choose to make to enable it to litigate in the Court of Claims or District Court - be considered a change in the timing of cash flows? If so, would the expectation of a favorable decision, resulting in a refund of the tax, also be considered a change in the timing of income tax cash flows and therefore included in the lease model? Would interest received on the refund be included in the lease model?
- *Accounting for existing tax reserves upon adoption of the FSP.*
 - The FSP indicates that an entity should recognize the cumulative effect of initially applying the guidance in the FSP as a change in accounting principle as described in paragraph 20 of APB Opinion No. 20. Prior to adoption, an enterprise may have established a reserve for a lease that is affected by the FSP. Should the amount of the cumulative effect adjustment be recognized net of any tax reserves booked or should the reserves be reversed and the cumulative effect adjustment calculated excluding the reserves?
- *Additional guidance with regard to the inclusion of interest and penalties in the recalculation.*
 - We believe that including interest and penalties raises a number of estimation issues. If a tax issue has already been settled with the IRS, the interest/penalties can be readily identified. However, if the company is in settlement negotiations, is challenging the IRS position, or is still in the IRS field audit stage, this estimation can become much more difficult and uncertain. Not only would a settlement amount have to be estimated, but the expected timing of the settlement as well. If the settlement is not expected until some future period, future interest rates would have to be projected. The multi-year, multi-jurisdictional tax position of corporate taxpayers can make any settlement process complex. The many items of carrybacks,

carryforwards and recalculated tax limitations will require an allocation of any assessed interest expense. If any of these estimates change, since the interest would be part of the net estimated income of the lease, a recalculation would be required. Conceivably, this could happen quarterly or monthly.

- Where a lessor has not settled, and is recalculating under FAS 13 according to its best estimate, the lessor may also have to estimate the applicable tax interest rates in the future. If a lessor is in this situation, it arguably could face the prospect of having to recalculate under FAS 13 each quarter as tax interest rates reset.

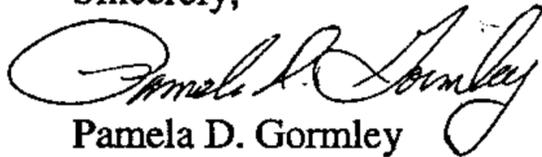
Effective Date

Paragraph 12 of the FSP indicates that “tax positions shall be reflected in the lessor’s calculation based on guidance in a proposed FASB interpretation on accounting for uncertain tax positions.” Since the guidance in this FSP is based in part on the guidance in the FASB interpretation, we believe that the effective date for the FSP should be the same as the effective date for the FASB interpretation.

Additionally, we urge the FASB to defer the effective date of the proposed FSP and the FASB interpretation, due to the complexity of the implementation issues. More time is needed to evaluate the impact of the guidance on our financial statements, as well as to establish a process to implement the guidance.

We would like to thank the FASB for the opportunity to be part of the process in developing the Proposed FSP. Please contact me at 617-664-7902 if you would like to discuss our comments further.

Sincerely,



Pamela D. Gormley
Executive Vice President and Corporate Controller