

## Private Company Financial Reporting Committee

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JUDITH H. O'DELL  
Chair

May 30, 2008

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



LETTER OF COMMENT NO. 1

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

Dear Mr. Herz:

In the Private Company Financial Reporting Committee's ("PCFRC") September 24, 2007 letter to you, we indicated that we might offer further recommendations about *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes* ("FIN 48"), based on ongoing research. The PCFRC recently completed an extended outreach to private company financial statement users, preparers, and practitioners. Based on those outreach results and on the knowledge and experience of the PCFRC members, the PCFRC offers the following recommendation to the FASB. The recommendation represents the unanimous views of the PCFRC members.

**Recommendation - The PCFRC recommends that the FASB exempt private companies from all of the requirements of FIN 48.** PCFRC outreach efforts clearly indicate that private company financial statement users find the accounting matters and disclosures encompassed by *FIN 48* to be largely irrelevant to their purposes and decision making activities. For example, many users indicated that the tabular reconciliation and the other disclosure requirements of paragraph 21 of *FIN 48* are largely irrelevant to their purposes. Many users indicated that the presentation in the balance sheet of a liability for unrecognized tax benefits was also largely irrelevant. Furthermore, many users

stated that their clients' tax positions taken in a tax return are not very important in evaluating their decision to extend credit or invest money.

The outreach results clearly indicate that private company financial statement preparers and practitioners find the provisions of FIN 48 to be significantly challenging to prepare, audit, review, or compile. Moreover, they find the incremental costs of complying with FIN 48 to be high. Also noteworthy is that a significant percentage of private company financial statement preparers, who responded to the PCFRC extended outreach, plan to take a GAAP exception in their financial statements related to FIN 48.

As stated in its mission, the PCFRC's recommendations to the FASB are to be based on private company financial statement user needs and cost-benefit considerations. Our FIN 48 extended outreach effort presents a clear-cut illustration of an accounting standard that does not address private company financial statement user needs, and whose costs fail to justify its intended benefits in the private company arena.

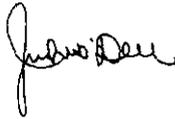
If the FASB decides not to implement the PCFRC's recommendation to exempt private companies from all of the provisions of FIN 48, the PCFRC recommends that, at a minimum, the FASB indefinitely defer the effective date of FIN 48 for private companies until the FASB-International Accounting Standards Board ("IASB") convergence project on income taxes is completed and FIN 48's provisions and merits can be examined in light of the upcoming revisions to FASB Statement No. 109, *Accounting for Income Taxes*.

It is our understanding that the FASB and the IASB are working on a project to improve the accounting for income taxes, while reducing the existing differences between FASB Statement No. 109 and International Accounting Standard No. 12, *Income Taxes*. We understand that an exposure draft related to that project is expected to be issued during the second quarter of 2008. In all likelihood, FASB Statement No. 109 will be significantly amended by this convergence project. Inasmuch as FASB Statement No. 109 is the base standard that FIN 48 interprets, the PCFRC believes that the provisions of FASB Statement No. 109 should first be settled before private companies expend the effort and incur the costs of implementing FIN 48's requirements only to face further changes once this project is completed.

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The PCFRC appreciates the FASB's consideration of this recommendation to exempt private companies from the requirements of FIN 48. Please feel free to contact me if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith O'Dell". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

Judith H. O'Dell  
Chair  
Private Company Financial Reporting Committee