COMMENTS

of

TAX EXECUTIVES INSTITUTE, INC.,

on the

PROPOSED ROADMAP

FOR THE POTENTIAL USE OF FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS BY

U.S. ISSUERS

[FILE NUMBER S7-27-08]

APRIL 20, 2009

Tax Executives Institute is pleased to submit comments on the proposed Roadmap ("Roadmap") for the potential use of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") issued on November 18, 2008, by the Securities and Exchange Commission ("SEC" or "Commission").

TEI applauds the SEC for issuing the Roadmap and welcomes the opportunity to provide our views. We support the broad goal of using a single set of high-quality accounting standards for financial reporting purposes. Among other things, a single set of standards will enhance the ability of users of financial information, *e.g.*, investors, regulators, and other interested parties, to compare financial information of U.S. companies with that of non-U.S. companies. Moreover, a single set of standards will temper the compliance reporting burdens of financial statement issuers. TEI generally supports the goal of adopting IFRS, a single body of financial reporting standards, to promote consistency in financial reporting. Our evaluation of the Roadmap suggests, however, that several areas would benefit from greater focus and analysis.

Summary of Recommendations

TEI principal recommendations are as follows:

First, "tax authority readiness," specifically, the ability of the Internal Revenue Service and state taxing authorities to cope with the conversion, must be established as an independent milestone. Given the historical linkage between financial information prepared in accordance with U.S. GAAP and the calculation of U.S. federal tax income, it is essential that the taxing authorities charged with developing and implementing transitions from U.S. GAAP to IFRS be central players in this process.

Second, the timetable currently proposed to adopt (2011) and implement mandatory IFRS reporting (2014) is unrealistic because it underestimates the time required to ensure taxing authority, taxpayer, and systems readiness. A more reasonable implementation date is 2016.

Background

Tax Executives Institute was founded in 1944 to serve the professional needs of in-house tax professionals. Today, the organization has 54 chapters in North America, Europe, and Asia, with the majority of our members working for companies resident in the United States. As the preeminent global organization of corporate tax professionals, TEI has a significant interest in promoting sound tax and regulatory policy, as well as in the fair and efficient administration of the tax laws. Our 7,000 members represent approximately 3,200 of the largest companies in the world.

TEI members are accountants, lawyers, and other employees who are responsible for the tax and financial reporting, compliance, and planning affairs of their employers in executive, administrative, and managerial capacities. Tax professionals deal with accounting principles in two significant ways. First, accounting standards promulgated by the Financial Accounting Standards Board undergird the books and records that serve as the starting point for tax compliance in the United States. Second, tax executives typically are responsible (alone or in conjunction with other corporate departments) for the implementation of the specific rules for accounting for income taxes that form a part of the financial statements and required disclosures.

Question 1: SINGLE ACCOUNTING STANDARD
Do commenters agree that U.S. investors, U.S. issuers, and U.S. markets would benefit from the development and use of a single set of globally accepted accounting standards? Why or why not? What are commenters' views on the potential for IFRS as issued by the IASB [International Accounting Standards Board] as the single set of globally accepted accounting standards?

The development and use of a single set of accounting standards is the natural outgrowth of globalization and would be beneficial in the long term. The enhanced consistency that IFRS would occasion would benefit investors both inside and outside the United States, and taken on its own would likely make the U.S. capital market more attractive to foreign investors. That more than 100 countries have already adopted IFRS makes IFRS the logical choice.

The move toward a single set of accounting rules implicates the rights and responsibilities of many stakeholders beyond investors and issuers, including tax authorities, regulators, and elected officials, and all their views should be considered as the process moves forward. Including the U.S. Department of the Treasury and the Internal Revenue Service as stakeholders is critical because the U.S. corporate tax base is currently inextricably linked to the calculation of income under U.S. Generally Accepted Accounting Principles. State tax systems will similarly be affected because the calculation of state taxable income generally begins with federal taxable income. Thus, unless the views of federal and state tax authorities are appropriately considered, U.S. GAAP may remain important for U.S. tax purposes, thereby diminishing benefits promised from the adoption of global standards.

Also, local deviations from IFRS arising from political, regulatory, legal, and tax constraints, may lessen efficiencies from centralization and standardization of systems, processes, documentation, and training. Whether the diversity of local practice allowed within IFRS will enhance tax administration remains an open question. While having a single global financial reporting standard might be a benefit for global companies, many countries that currently require IFRS for statutory reporting purposes have unique practices in the application of IFRS. Thus, even with the adoption of IFRS in the United States, differences would remain between local IFRS statutory reporting used by foreign subsidiaries of a U.S. multinational and the consolidated financial reporting for SEC filings under IFRS. Those differences would complicate tax compliance efforts just as they do currently with U.S. GAAP consolidated reporting and IFRS for local non-U.S. statutory reporting.

Question 2: FRAMEWORK

Do commenters agree that the milestones and considerations described in Section III.A of this release comprise a framework through which the Commission can effectively evaluate whether IFRS Financial Statements should be used by U.S. issuers in their filings with the Commission? Are any of the proposed milestones not relevant to the Commission's evaluation? Are there any other milestones that the Commission should consider?

Because the Roadmap may not currently give sufficient weight to the effect of U.S. GAAP on tax compliance and administration, TEI recommends that "taxing authority readiness," both with respect to the IRS and state taxing authorities, be added as a separate milestone. Thus, even though the Roadmap acknowledges that the IRS and other taxing authorities use financial information on an ongoing basis, the burden that conversion to IFRS would have on taxing authorities may be significantly underestimated. The importance of elevating tax authority readiness as a separate milestone is underscored by the following:

I. Tax Accounting Method Changes

When calculating taxable income for U.S. federal tax purposes, taxpayers are bound by the "methods of accounting" that they have chosen. If taxpayers wish to change those "methods of accounting," they must first request permission from the IRS. For example, if a corporation elects to use the LIFO "method of accounting" for inventory on its corporate income tax return but later desires to change to FIFO, that corporation must continue to use LIFO until it requests and receives permission from the IRS to make the change.

Most U.S. corporations have historically begun their calculations of U.S. federal taxable income using financial information prepared in accordance with U.S. GAAP. Consequently, those taxpayers have established "methods of accounting" for tax purposes that align in most instances with U.S. GAAP. A change from U.S. GAAP to IFRS would constitute a change to those "methods of accounting" for each item of income or expense whose treatment differs between the two financial reporting systems. Under current law, taxpayers would need to file a separate request with the IRS to make each change. Without IRS permission, existing law would require taxpayers to continue calculating taxable income for U.S. purposes under U.S. GAAP (*i.e.*, the "method of accounting" currently used) while simultaneously keep their books according to IFRS for purposes of financial reporting.

If the number of differences between U.S. GAAP and IFRS existing at the time of conversion is large, taxpayers will be confronted with deciding whether to keep two sets of books or initiating the process of requesting myriad changes to their methods of accounting for tax purposes. Assuming that a large number of corporations decide to take the latter approach, the IRS would be inundated with "accounting method" change requests.

The attendant changes to the accounting for income taxes under SFAS 109 and IAS 12 would also be significant during the transition period. Issuers' deferred tax assets and liabilities would swing dramatically as requests for changes in methods of accounting are filed with, and ultimately approved by, the IRS. Additionally, differences between U.S. GAAP and IFRS could create new deferred tax items. To minimize this volatility, the IRS should address the matter (*e.g.,* through a blanket request procedure) prior to mandatory use of IFRS. While many foreign-owned U.S. subsidiaries that currently report results using IFRS already grapple with this challenge, a broad mandate should not be imposed absent a coordinated transition involving both the IRS and state taxing authorities.

II. Transfer Pricing

Transfer pricing – *i.e.*, the determination of an appropriate "arms-length" price for transactions between related parties – is among the most complex and imprecise areas of the Internal Revenue Code. Through the application of transfer pricing methodologies, companies ensure that an appropriate amount of income and expense is attributed to, and taxed by, each jurisdiction. Given the complexities and the sums involved, many multinational companies have negotiated Advance Pricing Agreements (APAs) with the IRS and, in some cases, foreign taxing authorities. Considerable time and effort are expended to conclude these APAs and, while their lengths vary, a typical agreement covers four or five years.

For most U.S.-based multinationals, U.S. transfer pricing methodologies begin with and rely upon U.S. GAAP accounting methods. When those methods change under IFRS, the transfer pricing methodologies may also need to be changed. Changes in methodology are frequently byproducts of shifts in financial reporting rules. For example, adoption of SFAS 123-R (relating to stock option expense) required taxpayers to review and ultimately alter the internal computations supporting their transfer pricing methodology to take into account stock option expense. While the scope, breadth, and complexity of APA adjustments that could be triggered by IFRS conversion are beyond the scope of these comments, there should be formal recognition of the resources and time required for the IRS to consider if and how existing transfer pricing methodologies employed by taxpayers using U.S. GAAP should be changed.

While many taxpayers with parent corporations based outside the United States have negotiated APAs with transfer pricing methodologies based on IFRS or other non-U.S. GAAP accounting standards, the question remains whether those APAs would have to be renegotiated or otherwise revised as a result of a change in the accounting standards.

III. State Taxation

Domestic corporations are subject to federal tax on their worldwide income and must also determine what portion of that worldwide income is attributable to activity in each state where they do business. To address this issue, States have developed ratio-based formulae that compare some combination of corporate sales, payroll, and property in the State to sales, payroll, and property everywhere. The applicable calculation is referred to as the enterprise's apportionment formula and each of its separate components is referred to as a factor (*e.g.*, the sales factor).

The accounting principles used to determine these factors affect the tax base in each state. For example, changes in revenue recognition policies under IFRS could significantly affect a corporation's sales factor and ultimately the amount of income apportioned to each state.

In addition to taxes based on income, approximately 15 states levy a tax based on a corporation's equity or net worth. Nearly all of these States currently determine the tax base by reference to GAAP or to the accounting method used for federal income tax purposes. If states continue to require U.S. GAAP-based net worth calculations, corporations would be forced to keep at least two sets of books and records – one under U.S. GAAP to allow for compliance with state net worth taxes, and another under IFRS for financial reporting purposes. In addition, adjustments flowing through equity upon conversion to IFRS could have significant effects on a corporation's net worth tax base. The connection between accounting standards and state tax base makes it critical to include representatives of state tax authorities in the deliberations concerning a mandatory adoption of IFRS.

IV. Book-Tax Differences and Schedule M-3 – Reconciliation of Book Income to Taxable Income

Schedule M-3, *Reconciliation of Net Income (Loss) per Income Statement with Taxable Income per Return* ("the M-3"), is the part of the U.S. corporate income tax return where book-tax differences are reconciled and summarized. Designed to enhance transparency, the M-3 was released after extensive consultations with both taxpayers and the tax and accounting communities. Because of the scope of the M-3 overhaul, which required significant changes to taxpayer return preparation software as well as to internal accounting systems, implementation was extended over a multi-year period.

Adoption of IFRS will likely require a re-examination of existing forms and schedules, in particular, the Schedule M-3 – a review that may be time-consuming as the IRS reassesses the information it currently captures and what changes are necessary to accommodate differences between IFRS and U.S. GAAP. Any changes, moreover, would necessitate taxpayer efforts and costs to ensure system capability. The Roadmap should build such review and systems implementation time into its timetable.

V. Training and Education

The Roadmap correctly identifies training and education as key components to successful conversion to a single set of global accounting standards. Sufficient time to educate all stakeholders in this process – taxpayers, tax advisors and taxing authorities – should be built in, as should a process for the SEC to evaluate whether minimum competency levels have been achieved.

Question 3: MILESTONE ASSESSMENTS
Do commenters agree with the timing presented by the milestones? Why or why not? In particular, do commenters agree that the Commission should make a determination in 2011 whether to require use of IFRS by U.S. issuers? Should the Commission make a determination earlier or later than 2011? Are there any other timing considerations that the Commission should take into account?

I. Tax Authority Readiness

If the Commission targets 2011 to make a final determination, tax authorities would have 36 months to assess the effects of conversion, ready themselves for the change, and provide guidance to affected registrants. TEI believes that the time required by the IRS and state authorities to prepare for this change has been underestimated. Even if the IRS were to permit automatic accounting method changes for all or a portion of the required U.S. GAAP/IFRS changes, time would still be needed to establish, publish, and implement the required revenue procedures needed to implement such changes. If the IRS decided to review accounting method changes on a case-by-case basis for all or a portion of the required U.S. GAAP/IFRS changes, it would have to recruit, hire, and train staff to process the volume of requested changes. Certain changes, such as inventory methods, may require guidance in the form of regulations, which history suggests will take years to draft, vet, and issue in final form.

We understand that the IRS recognizes the significance of a potential U.S. transition to IFRS and has embarked on a project with various industry stakeholders to identify issues related to conversion (including earnings and profits, transfer pricing, revenue recognition, inventory accounting, and changes in accounting method rules) and assess the effects on tax compliance and administration.

These are important first steps, but more is necessary. Establishing tax authority readiness as an independent milestone will ensure continued and sustained focus in this area.

II. Issuer Readiness

If the decision to require mandatory conversion is made in 2011, registrants will need to begin reporting under IFRS standards beginning in 2014. Although three years seems sufficient time to make this conversion, registrants will need to report three years of comparative financial results in their 2014 10-K filings. Thus, results for 2012 and 2013 will also need to be reported using IFRS standards. This will require recalculation of all components of issuers' financial statements including income tax expense; deferred tax assets and liabilities; income taxes payable; and liabilities for uncertain tax positions for these prior periods. It is unreasonable to expect this to be accomplished within the anticipated timeframe.

The transition will be simplified to the extent convergence of U.S. GAAP and IFRS (*e.g.*, in respect of accounting for income taxes) continues prior to the required change to IFRS. Convergence will require careful management of required changes to processes and systems. System changes can take a significant amount of time in a large corporation. Defining the changes, and building, testing, and implementing systems can take up to three years in complex organizations, particularly those utilizing ERP system platforms. This, coupled with the need for multiple comparative years requiring parallel GAAP and IFRS financials, suggests that at least five years will be required to implement the reporting change. Thus, if the timetable for making a decision to adopt IFRS is 2011, a more reasonable implementation date might be 2016.

Question 13: TRANSITION READY

What steps should the Commission and others take in order to determine whether U.S. investors, U.S. issuers, and other market participants are ready to transition to IFRS? How should the Commission measure the progress of U.S. investors, U.S. issuers, and other market participants in this area? What specific factors should the Commission consider?

Of paramount importance in the evaluation of the readiness to transition is the degree of accuracy that is expected when the issuer first reports its results under IFRS. In the case of accounting for income taxes, an issuer's deferred tax assets and liabilities, income taxes payable, and liabilities for uncertain tax positions cannot be accurately reported until the position of the tax authorities are known. Specifically, by 2011, the IRS must have (a) articulated clear guiding principles (after receiving taxpayer input), (b) assessed personnel training and systems needs for its transitional requirements, (c) obtained the budgetary commitment necessary to implement such requirements, and (d) identified those areas that are likely to create the most significant divergence from current accounting practice and the approach the IRS will take for such areas.

Question 67: COST & BENEFIT

Do you agree with our assessment of the costs and benefits as discussed in this section? Are there costs or benefits that we have not considered? Are you aware of data and/or estimation techniques for attempting to quantify these costs and/or benefits? If so, what are they and how might the information be obtained?

TEI questions whether the complexities (or nuances) of conversion in the area of income tax accounting have been given adequate consideration. Assessing each accounting method used for SEC reporting under IFRS, comparing it to existing tax methods, and determining whether accounting method changes will be required (whether automatic or a change that requires advance permission from the IRS) will engender significant costs in terms of resources and external adviser fees.

Further, industry-specific implications will vary widely depending upon the magnitude of the differences between U.S. GAAP and IFRS. The extent of the analysis will also be determined only once taxpayers know how the IRS intends to address this major change.

In addition, transfer pricing implications, such as re-calibrating and re-negotiating APAs, will carry associated costs, depending on the volume and complexity of transactions at issue. Further, transfer pricing decisions and documentation are often based on reference to the financial results of comparable transactions observed in the marketplace, including data obtained from audited financial statements in SEC filings. Hence, the transition to IFRS will affect the comparability of this market data since presumably most of the comparable companies will be "in transition" to IFRS as well.

Finally, but as important, corporate tax departments are not currently staffed to handle a change of this scale. Indeed, because of current economic conditions, it will be difficult for companies to secure the resources to manage a change of this magnitude. This factor, by itself, necessitates adjustments to the timetable.

Conclusion

TEI commends the SEC for publishing its Roadmap, and thereby broadening the stakeholder discussion on the issues and challenges associated with migrating to a single set of global accounting standards. Adoption of a single set of global standards is a salutary objective. Before reaching that decision point, however, stakeholders must be confident that regulators, tax authorities, tax professionals, advisers, and elected officials are aware of the implications of a single global standard and support it.

TEI's central concerns bear repeating – tax authority readiness – must be an independent milestone. The IRS and state revenue authorities must be central players in the IFRS conversion process. The need for foreseeability and predictability in a change of this magnitude demands that the IRS (and those who exercise oversight jurisdiction over that agency) commit the necessary resources on a multi-year basis. Second, it is critical to allow sufficient lead time to permit adequate upfront planning, without overburdening accounting and tax departments that are already resource constrained.

Tax Executives Institute appreciates the opportunity to offer its views on the Roadmap. If you have any questions about the Institute's views, or if we can be of further assistance as the SEC considers these important matters, please do not hesitate to contact Terilea J. Wielenga, Chair, TEI Financial Reporting Committee, at 714.246.4030 or Wielenga_teri@allergan.com, or Eli J. Dicker, TEI's Chief Tax Counsel, at 202.638.5601 or edicker@tei.org.

Sincerely yours,

Vincent Alicandri
International President
Tax Executives Institute, Inc.

Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-2090