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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

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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

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.

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"

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 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.

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.

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.

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