



Letter of Comment No: 36  
File Reference: 1205-001

October 28, 2005

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
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File #1205-001: Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries

Dear Board members:

Quebecor Inc. welcomes this opportunity to comment on the Exposure Draft entitled "Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries."

COMMENTS ON QUESTIONS

**Concerning Questions 1 and 2, which read as follows:**

*Question 1—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?*

*Question 2—Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders' equity? If not, what alternative do you propose and why?*

We agree with the proposal to report noncontrolling interest separately in the shareholders' equity of the consolidated company. Among other things, we agree with the Board's conclusion in paragraph B14 of the Exposure-Draft, which states:

*"The Board concluded that that assertion (that noncontrolling interests are not equity interests in consolidated financial statements of the parent because noncontrolling interests have no interest in the equity of the parent)<sup>1</sup> is inconsistent with the view of consolidated financial statements as those of a single economic entity. That view supports classification as equity because holders of noncontrolling interests are owners of a residual interest in a component of the consolidated entity".*

We are of the view, however, that the accounting standards for the recognition of a debt of the parent, that is convertible into in a fixed number of shares of a subsidiary, when the parent has the option of settling the debt in cash or with the shares of the subsidiary, should be reviewed and the impact of the Exposure Draft on such instruments be incorporated into Appendix E.

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<sup>1</sup> Underlined text is our addition

In our view, similar accounting treatment is required for convertible debt of a parent, regardless of whether it is convertible into shares of the parent or shares of a subsidiary when the consolidated financial statements represent those of a single economic entity and the parent company continues to control the subsidiary following the conversion of the parent debt.

Therefore, we believe that the accounting treatment of a debt of a parent convertible into a fixed number of shares of a subsidiary, with issuer option to settle for cash, should have a similar accounting treatment as a debt of the parent convertible into shares of the parent, as described in EITF 90-19, "Convertible Bonds with Issuer to Settle for Cash upon Conversion," when control over the subsidiary is retained. In this regard, EITF 90-19 stipulates:

*"A company issues a debt instrument that is convertible into a fixed number of common shares. Upon conversion, the issuer is either required or has the option to satisfy all or part of the obligation in cash. Three variants of this instrument have been identified*

*"Instrument B: Upon conversion, the issuer may satisfy the entire obligation in either stock or cash equivalent to the conversion value.*

*"Instrument B should be accounted for as conventional convertible debt. If the holder exercises the conversion option and the issuer satisfies the obligation in cash, the debt should be considered extinguished at that time and the issuer should follow the accounting prescribed by Opinion 26, paragraph 20, which states, 'A difference between the reacquisition price and the net carrying amount of the extinguished debt should be recognized currently in income of the period of extinguishment as losses or gains.' ... "*

In the case of a parent debt convertible into shares of a subsidiary, where the parent may satisfy the entire obligation in either shares of the subsidiary or cash equivalent to the conversion value, all the financial risk related to changes in the fair value of the subsidiary is transferred to the holders of the debt, regardless of the issuer's option to settle in stock or cash. Therefore, from the point of view of the consolidated economic entity, a change in the fair value of the shares of the subsidiary determined by the conversion ratio will have no financial impact on the equity of the parent.

We are therefore of the view that a debt of the parent convertible into a fixed number of shares of a subsidiary, where the parent may satisfy the entire obligation in either shares of the subsidiary or cash equivalent to the conversion value as discussed in Instrument B in EITF 90-19 (where control over the subsidiary is retained), should be recognized at its original face value, plus or minus unamortized premiums and discounts, if applicable. The same accounting treatment as discussed in EITF 90-19 should be applied upon settlement of the convertible debt.

As a result of the adoption of the economic entity approach, which includes the accounting of noncontrolling interest in equity and considers transactions involving noncontrolling shareholders as capital transactions as long as the parent company maintains control of the subsidiary, we believe that EITF 90-19 should be adjusted to reflect the above scenario.

**Concerning Question 4, which reads as follows:**

*Question 4—Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?*

We agree with this proposal. We have also noted the following requirement in the Exposure Draft concerning the proposal in Question 4:

*“This proposed Statement would require that once control of a subsidiary is obtained, any increases or decreases in ownership interests in that subsidiary that do not result in a loss of control shall be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary’s net assets. Any difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, shall be recognized directly in equity attributable to the controlling interest”.*

The Exposure Draft would give users of financial statements an overview of the company’s financial position from the point of view of all shareholders of the consolidated economic entity, regardless of whether they hold a minority or a majority interest.

The opinion we have expressed in response to Questions 1 and 2 concerning the recognition of debt of the parent convertible into a fixed number of shares of a subsidiary is consistent with these requirements in the Exposure Draft.

**Concerning Question 7, which reads as follows:**

*Question 7—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?*

We agree with this proposal.

In addition, we are of the opinion that the accounting standards for the calculation of diluted earnings per share, as set out in FAS 128, should be reviewed and the impact of the Exposure Draft on these standards should be described in Appendix E.

Among other things, paragraph 26 of FAS 128 should be amended to include all elements related to the impact of the conversion of a debt of the parent into shares of a subsidiary, particularly the impact on the calculation of net earnings attributable to the controlling interest.

Yours sincerely,

/s/ Jean La Couture  
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Director and Chairman of the audit committee  
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/s/ Jacques Mallette  
Jacques Mallette, CA  
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/s/ Denis Sabourin  
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