COMMENTS ON FASB EXPOSURE DRAFT "CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING ACCOUNTING AND REPORTING OF NONCONTROLLING INTERESTS IN SUBSIDIARIES - A REPLACEMENT OF ARB NO. 51"

Respondent's name and affiliation

Name:

Bob Deere

Letter of Comment No: 35 File Reference: 1205-001

Title:

Vice-President, Accounting & Reporting

Company:

Royal Dutch Shell plc

Address:

Shell Centre, London SE1 7NA

Phone:

44-20-7934-5182

E-mail address: b.deere@shell.com

General comments

We are grateful for the opportunity to comment on the Board's proposals. We have the following general comments which are reflected in our response to the specific questions raised.

- A. We fully support the concept of converging IFRS and US GAAP in this and other areas (see D below). However the proposals go beyond what is necessary for convergence and introduce fundamental changes in the reporting of business combinations, in particular they provide a further step towards fair value accounting as the prime measurement basis. We do not see there is a problem here to be fixed and therefore cannot see a need, nor believe there is a demand from users of financial statements, for such changes. We would therefore prefer to see convergence around the principles of the existing IFRS 3.
- B. We would urge the Board to put on hold the expansion of the use of fair value accounting until there is a re-think about how information is presented in financial statements; this means concentrating on the performance reporting project. Otherwise we consider that the understandability, and therefore the usefulness, of financial statements will be compromised by additional use of fair values, which bring with them less reliability and more measurement uncertainty. We do believe for example that realisation remains a key factor.
- C. The proposals extend further the principle that consolidated financial statements focus on the enterprise as a whole ("economic entity" concept) rather than on the parent's interest, i.e. the "non-controlling" (minority) interest is simply a component of equity. (This is a more significant change for US GAAP than for IFRS.) We do not believe that this reflects how management and users of financial statements operate.
- D. We would urge both Boards to ensure that whatever standards emerge after their respective re-deliberations are converged.

Specific questions asked

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

We do not believe that the non-controlling interest is or should be considered simply as part of equity. Preparers and users of financial statements focus on the parent's interest and therefore balances and transactions with the minority interest should continue to be seen as in effect with a third party.

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?

Further to our response to Q1, we consider that the non-controlling interest should continue to be a deduction in arriving at the parent's equity.

Question 3: Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?

We would retain the existing requirements as we do not believe that the proposed changes will improve the usefulness of financial statements.

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?

In line with our response to Q1, we do not agree that a change to existing treatment is necessary.

Question 5: Do you agree that any gain of loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognised in income of the period? If not, what alternative do you propose and why?

We do not consider that recognizing in income an unrealized gain or loss on a retained equity interest is going to improve the usefulness of financial statements. As stated in our introduction, if the Board is determined to move towards a fair value accounting model, it should first address the presentation of such information.

Question 6: Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?

We agree with the proposed guidance.

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?

Yes, we agree and this is entirely consistent with users' need to focus on the parent's interest.

Question 8: Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why not?

Disclosure of information on non-controlling interests should be required, but as a deduction from total amounts rather than an allocation.

Question 9: Do you agree that disclosure of amounts attributable to the controlling interest should be required? If not, why not?

Yes, we agree.

Question 10: Do you agree that a reconciliation of the changes in the noncontrolling interest should be required?? If not, why not?

Yes, we agree.

Question 11: Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

This may be necessary to explain significant transactions. It is made more complex by the changes in accounting treatment being proposed.

Question 12: Do you agree that disclosure of the gain or loss recognised on the loss of control of a subsidiary should be required? If not, why?

In line with existing general disclosure requirements, any amount that is significant in relation to the financial statements should be disclosed.

Question 13: Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?

We believe that it could be impractical to apply many of the proposed changes on a retrospective basis and therefore believe that they should all be applied prospectively, except to the extent that there is a change in the presentation of non-controlling interests.

We would not, for example, support, the proposal to restate prior periods to move gains or losses on sales that did not result in loss of control from income to equity.