



October 28, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference 1205-001

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. We appreciate the opportunity to provide input into your deliberations on the above-referenced Exposure Draft which represents a proposed replacement of ARB No. 51.

The PSC wishes to direct its comments on this proposed Standard to the issues raised in questions 1, 2, and 3 noted in the Exposure Draft. Regarding questions 1 and 2, the PSC is opposed to showing minority interests in equity, even with expanded disclosures. Our committee does not find the Board's arguments presented in paragraphs B12 – B14 to be particularly persuasive. The Board rejected the position of showing minority interests as liabilities because they concluded that such interests do not meet the definition of a liability as provided in FASB Concepts Statement No. 6. We believe this conclusion is based on a one-sided test. As stated in paragraph B13 of the Exposure Draft, FASB Concepts Statement No. 6 treats equity as "net assets."

Accordingly, the PSC believes an equally applicable test would be to determine whether "minority interests" meet the Concepts Statement definition of an asset. They obviously do not. Thus, if they are not considered to be assets of the consolidated entity, how can they be net assets (**equity**)? We suggest consideration of the basic issue. Consolidated financial statements reflect all the assets and liabilities of the consolidated subsidiary. Since a portion actually belongs to minority interests, this portion needs to be deducted. The easiest way to deduct some amount from an asset, in an attempt to reflect net equity, is to show the amount as a liability. We find this to be no more inconsistent with Concepts Statement No. 6 than trying to defend minority interests as being a part of equity. The proposed cure presented in the Exposure Draft is to expand disclosures related to the equity section. This guidance only helps the reader who is focusing his or her analysis on the balance sheet. However, a reader analyzing return-on-equity may well be misled by the proposed guidance.

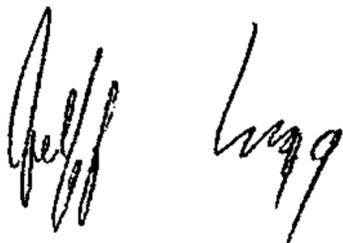
Regarding question 3 in the Exposure Draft, the PSC believes the guidance in ARB No. 51 is appropriate. When allocated losses have eliminated the minority interests' share of net assets, further losses should be allocated to the majority interests. We disagree with the proposed guidance that allows for continued allocation of losses to a "minority deficit."

We find an interrelationship between question 3 and the issues we raised regarding questions 1 and 2. If minority interests are displayed as a liability, as we propose, applying this deficit allocation would turn the liability into an "asset" as losses continued to mount (a negative liability is an asset). This approach does not demonstrate a problem with the liability approach that we suggest; rather it demonstrates the basic fallacy of implying that those losses don't have a negative effect on the majority shareholders.

The combination of this proposed allocation with the proposal to let the parties enter into contractual arrangements to allocate profits and losses in a manner other than in proportionate interests could lead to very abusive practices. What would stop an entity from allocating 99% of the losses to the 1% minority shareholders? Under the combined guidance proposed in the Exposure Draft, when a subsidiary was doing well we would expect to see glowing references to "total" or "consolidated" equity. However, when the subsidiary started losing money, the focus would change to the "real" controlling shareholders' equity, rather than the deficit attributable only to the minority interests. We believe the potential abuse that could result from such guidance requires the Board to reassess its position.

The TSCPA Professional Standards Committee appreciates the opportunity to comment on the proposed standards of the FASB.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Jeff Gregg". The signature is written in a cursive, flowing style.

C. Jeff Gregg, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants