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Matthew L. Schroeder Managing Director Accounting Policy

> Goldman Sachs

October 28, 2005

Mr. Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards: "Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51"

Dear Mr. Herz:

Goldman Sachs appreciates the opportunity to comment on the above-referenced Exposure Draft (the ED). We support the Board in its efforts to work jointly with the IASB on convergence of accounting standards to improve international comparability of financial statements. Although we support the Board's efforts, we believe the ED would not represent an improvement to the accounting and reporting of noncontrolling interests in consolidated financial statements.

#### **Noncontrolling Interests in Subsidiaries**

The Board noted the reporting of noncontrolling (minority) interests in subsidiaries is a display issue, and we agree. We believe the objective of display in consolidated financial statements should be to present information that is most relevant to the parent's shareholders and creditors. In our opinion, that objective is best met by displaying information from a parent company perspective, which has been long standing practice, without any discernable criticism. We believe the proposal does not achieve this objective – even with separate disclosure – because the relevant measure of equity in consolidated financial statements is the amount of equity contributed or earned by the parent's shareholders.

The ED proposes reporting noncontrolling interests in subsidiaries within equity, and presenting it separately from the parent shareholders' equity. We understand the Board's conclusion is that consolidated financial statements are designed to present the financial position and results of operations of a single economic entity. Consequently, equity of a subsidiary held by noncontrolling interests is equity of the single economic (consolidated) entity. Noncontrolling interests should not be displayed as a liability in the parent's consolidated financial statements because there is no obligation to transfer assets or provide services to those interests.

While we agree with these statements, we do not believe they are conclusive regarding the issue of how best to display information for users of the parent's consolidated financial statements. Footnote 16 of Concepts Statement 6, states, in part: "Decisions about recognizing, measuring, and displaying elements of financial statements depend significantly on evaluations such as what information is most relevant for investment, credit, and other resource-allocation decisions" (emphasis added). Regarding consolidated financial statements, ARB 51 provides guidance about what information is relevant, stating it is information that primarily benefits "the shareholders and creditors of the parent."

In our view, the more useful and relevant display of information is to report noncontrolling interests in subsidiaries as a "mezzanine" item between liabilities and equity. We are aware that during its deliberations the Board considered and rejected this approach because there was no apparent compelling reason to create a fourth element on a balance sheet beyond assets, liabilities and equity. We would argue a fourth element already exists or would exist de facto in financial reporting, and so creating a fourth element would be simply an acknowledgement of present practice.

We are aware the Board has a project on its agenda to reconsider its conceptual framework. Should the Board plan to revisit a "mezzanine" reporting element, we encourage the Board to defer action on the display of noncontrolling interests in subsidiaries pending the results of that project.

# **Changes of Ownership Interests in Subsidiaries**

The ED proposes that changes in ownership interests in a subsidiary not accompanied by changes in control of the subsidiary would be accounted for as equity transactions among owners. Changes in ownership interests in a subsidiary accompanied by a change in control would result in the recognition of a gain or loss on the transaction. For example, as proposed in the ED, if an entity sells 49% of a wholly owned subsidiary, no gain or loss would be recognized, while if it sells 51% of that same entity a gain or loss would be recorded as a result of the change in control.

We believe the ED contradicts a fundamental tenet of accounting, that is, disposals give rise to gain or loss. We further believe the ED dilutes the relevance of financial information to the primary users of the financial statements because, from the perspective of the parent, sales of controlling interests in subsidiaries represent economic events.

We are aware that additional disclosures about the effect on EPS of changes in a parent's ownership of a subsidiary would be required by the proposal (paragraphs 30d and B27). We pause at a model that requires disclosure to undo the effects of recognition and believe such a model generally should be reexamined.

## Allocation of Losses in Excess of Noncontrolling Interest in Subsidiary

We believe the current practice by which losses are allocated to a controlling interest is a meaningful and relevant presentation for users of financial information and should be retained.

The ED proposes that losses applicable to the noncontrolling interest in a subsidiary should be attributed to the noncontrolling interest even if those attributed losses exceed the noncontrolling interest in the subsidiary's equity. Although we recognize that this conclusion is consistent with the position of the ED that the noncontrolling interest is equity, from an economic perspective, the noncontrolling interest has no obligation to absorb such losses.

### **Additional Comments**

We believe further clarity is needed in regard to the following:

### Variable Interest Entities

The ED proposes that net income or loss be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires a different attribution between them. We note that footnote 6 to paragraph 21 indicates that, "The Board is researching in a separate effort whether or how variable interest entities should apply the guidance in this paragraph." As further described in paragraph B19, "some constituents have raised concerns that in some cases, net losses attributed to the primary beneficiary of a variable interest entity under ARB 51 may be absorbed ultimately not by the primary beneficiary, but by noncontrolling variable interests that are not equity interests." Since the quantitative and qualitative analyses associated with VIEs are driven by contractual arrangements, to the extent the ED prescribes allocations based on contractual arrangements, we believe the proposal should clarify that this concept also applies to VIEs.

### Multiple Arrangements

We believe accounting literature differs in approach to determine the unit of account in multiple element arrangements and we encourage the Board to take up a project to comprehensively address this inconsistency.

The ED lists specific factors that indicate that multiple arrangements should be accounted for as a single arrangement. Similarly, in *Statement 133 Implementation Issue No. K1* (DIG Issue No. K1), the Derivatives Implementation Group provided indicators for determining whether separate transactions should be viewed as a single arrangement or

unit. This topic is also addressed in other literature, including EITF Issue 00-21, Revenue Arrangements with Multiple Deliverables and EITF Issue 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty. The factors enumerated in these documents, while having some intersection, are inconsistent. Additionally, the documents diverge with regard to whether the presence of all, some or just one of the indicators are sufficient to view multiple arrangements as a single arrangement.

This "unit of account" question was also raised in EITF 02-2, When Certain Contracts That Meet the Definition of Financial Instruments Should be Combined for Accounting Purposes. While no consensus was reached on that issue, the Task Force "recommended that the Board undertake a project to develop comprehensive guidance for when arrangements should be combined for accounting purposes." Since then, this issue has evolved piecemeal and increased in significance.

## Amendment to FASB Statement No. 52, Foreign Currency Translation

The ED proposes amending paragraph 14 of FASB Statement No. 52 as follows, "Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity that results in a loss of control of that entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be removed from the separate component of equity and shall be reported as part of the gain or loss..." Although we are aware that the reason for requiring complete or substantially complete liquidation is to defer recognition of the translation adjustment while the effect is "uncertain and remote" until the point at which it becomes realized, we believe a translation adjustment can be realized even where there is no loss of control of the entity and do not see how the conclusions in this ED change this concept.

Additionally, we note as a technical matter that this amendment to FASB No. 52 suggests an amendment may be required to FASB Interpretation No. 37, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity. If not, we believe the Board should describe the accounting for the partial sale of a subsidiary that does not result in a loss of control.

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We appreciate the opportunity to comment on this complex and important issue. If you have any questions or comments regarding our letter, please do not hesitate to contact me at 212-357-8437.

Sincerely,

/s/ Matt Schroeder
Matthew L. Schroeder