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Technical Director
File Reference 1205-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft of Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements, a replacement of ARB No. 51"

#### Ladies and Gentlemen:

Citigroup appreciates the opportunity to comment on the Exposure Draft, *Proposed Statement of Financial Accounting Standards*, "Consolidated Financial Statements, a replacement of ARB No. 51" (the "Proposal"). However, we do not support the Board's conclusions in this Proposal and suggest that it be withdrawn.

Rather than issue what we believe to be a standard that neither "fixes" existing practice issues, which we believe are isolated to inconsistencies in where minority interest is displayed, nor provides convergence with existing IASB standards, given that this Proposal would also be a dramatic change to international standards, we urge the Board to focus first on the underlying conceptual framework including the determination of the objectives of financial reporting.

Various proposals on consolidation policy and procedures have been issued over the years and all have invariably relied upon the "economic unit" theory. In our experience, most constituents, including analysts and other financial statement users, favor a parent company approach to financial reporting. For this reason, we find it especially curious that the Board would once again put forth a proposal on consolidation procedures without first reaching a consensus on the basics.

Consistent with the views expressed in our comment letter on the Business Combinations Exposure Draft ("ED"), only after accepting that the "economic unit" view is conceptually superior to the "parent company" view can one accept many of the conclusions reached in this Proposal. We strongly favor the "parent company" view as being the most relevant to both current and future investors, though we acknowledge that no consensus has yet been reached despite decades of debate. We question the Proposal's radical departure from existing practice in the absence of resolution on this underlying concept.



Although we do not support the issuance of the Proposal in its current form, we realize the Board may see fit to issue a final standard with substantially the same conclusions. If so, we have included comments on certain of the questions in the Notice to Recipients in the Appendix to this letter.

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We would be pleased to further discuss our comments you at your earliest convenience.

Sincerely,

Robert Traficanti Vice President and Deputy Controller



# Appendix – Responses to Selected Questions

### Question 1-2 – Classification of Noncontrolling Interest as Equity

We disagree with the classification of noncontrolling interests as equity of the consolidated entity. The proposed classification would imply that noncontrolling interest holders have an ownership interest in the consolidated group — a conclusion we disagree with under a parent company view. We believe that consolidated financial statements serve the interest of the controlling shareholders and, hence, consistent with the "parent company" perspective, there is no rationale for such a classification. Additionally, the parent company company perspective is well known and understood by users, and in the absence of any apparent abuses in this area, we see no need for a change.

However, we do understand the need to address the diversity in practice as it relates to the classification of noncontrolling interests as a liability or a component of equity. We recommend that the FASB mandate the classification of noncontrolling interest as a "mezzanine item" between liabilities and equity.

# Question 3 – Attributing Net Income / Loss to Controlling & Noncontrolling Shareholders

Consistent with our views in Question 1-2, we believe that users of financial statements are primarily interested in the controlling interest's share of net income. Hence the proposed presentation would add unnecessary clutter to consolidated financial statements. We also disagree with the attribution of losses in excess of the carrying value of noncontrolling interests. In reality, noncontrolling interest holders cannot generally be made to make good on any losses suffered in excess of the carrying value of their investment.

We believe that noncontrolling interests should continue to be reported as an "expense" on the income statement. Also, losses attributed to noncontrolling interests should continue to be capped at the extent of their stake.

## Question 4 – Changes in Ownership Interests in a Subsidiary

We disagree with the proposed accounting for changes in ownership interest in a subsidiary. We view these as transactions with third parties and therefore disagree with their being accounting for as equity transactions.

The impact, when taken in conjunction with the proposed accounting in Business Combinations ED, would have absurd accounting results. Subsequent to recording 100% of the goodwill, purchases of additional stakes at prices different from the acquisition of a controlling stake, will reflect incorrect goodwill and carrying value of the subsidiary. Any gain or loss on account of the sale of a noncontrolling stake in a subsidiary would be accounted for as an equity transaction without the recognition of a gain or loss. This will lead to "accounting" gains/losses being



different from economic gains/losses. It will also open up this area for potential abuses in timing and structuring of transactions with the objective of managing the recognition of gains or losses.

Consistent with our concerns on the Business Combinations ED, we believe that changes in ownership of a subsidiary should continue to be recorded as additional purchases or sales, with recognition of goodwill (in purchases) or gain/loss (in case of sales) at each step.

### Question 5 – Loss of Control of Subsidiaries

We disagree with the Proposal's requirement to remeasure a retained interest in a formerly consolidated subsidiary to fair value through earnings. We fail to see how the mere retention of an ownership stake resulting from a loss of control qualifies as a trigger for a realized or realizable gain as contemplated by paragraph 83 of Concept Statement No. 5. As with the "economic unit" view that underlies much of the conceptual basis for this Proposal, we believe this topic warrants further consideration within the Conceptual Framework project before making significant changes to existing practice.