



Letter of Comment No: 54
File Reference: 1204-001

PPG Industries, Inc.
One PPG Place Pittsburgh, Pennsylvania 15272

William H. Hernandez
Sr. Vice President, Finance

October 28, 2005

VIA E-MAIL

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: File Reference Nos. 1204-001 and 1205-001

Dear Sir or Madam:

PPG Industries, Inc. (PPG) is pleased to submit its comments on the exposure drafts of the Proposed Statements of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141" and "Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51." PPG is a Fortune 500 company and a leading global producer of coatings, glass, and chemical products. PPG employs approximately 31,000 employees, worldwide.

PPG acknowledges the FASB and the IASB's intention to converge US and International accounting standards while at the same time providing further guidance in accounting for business acquisitions and noncontrolling interests ("minority interests"). We concur with certain of the requirements outlined in the two EDs, however, there are a number of issues to which PPG takes exception. In particular, we are troubled by the Board's preference for fair value measurement of each and every accounting matter that it addresses. In this case, we are concerned about the requirement to measure nonmonetary liabilities and contingencies at expected fair values which, by definition, will never equate to the ultimate amount settled in cash. Accordingly, the Board's preference for fair value measurements results in conceptual values being reflected on balance sheets with no regard being paid to the resultant volatility in earnings when such balance sheet amounts are adjusted to the amounts ultimately paid.

Our views on specific issues proposed by the EDs are summarized below:

Business Combinations ED

Acquisition Fair Value and Consideration Transferred

We concur with the Board's desire to record the acquisition of a business at fair value and its view that the fair value is determined by the fair value of the consideration transferred. However, we disagree with the Board's definition of consideration transferred, which excludes certain costs (discussed in further detail below) incurred by the acquirer to execute a business acquisition. And we disagree that consideration transferred includes only amounts paid to the seller in exchange for the business.

Acquisition Related Costs

The ED requires the acquirer to expense acquisition related costs incurred in connection with the business combination rather than including such costs in the fair value of the consideration transferred.

The Board does not consider these costs as part of the fair value exchange between the buyer and the seller for the business but rather as payments exchanged for services rendered. Although such costs are exchanged for services rendered, we are not persuaded that the exchange of value has to be with the acquiree in order to be included in the estimation of the value of the acquired business. These costs are directly related to the acquisition and relate to activities necessary for the acquisition to be completed.

The Board states that it does not consider these costs to represent assets. The services (i.e., investment banking, legal, accounting, actuarial, etc.) rendered are essential to completing the transaction. Since these costs are required to complete the transaction we believe that they provide future benefit to the acquirer. Therefore, these costs represent the definition of an asset as defined in Concepts Statement No. 6, "Elements of Financial Statements" ("CS No. 6").

Accordingly, we believe that it is appropriate to capitalize these costs in the purchase accounting entries as part of the fair value of the consideration paid.

Contingent Consideration and Other Acquired Liabilities

We concur with the Board that the fair value of contingent consideration and acquired liabilities should be estimated and recorded during the measurement period; however, we do not agree with the measurement provisions of the ED. The ED would require that contingent consideration and acquired liabilities be measured using the provisions of CS No. 6. CS No. 6 requires estimates to be based on probability – weighted, potential cash flows. Therefore, this methodology will necessarily result in deviations between the amounts accrued in the purchase accounting entries and those which are ultimately paid to settle the obligations.

We believe that the fair value of contingent consideration and acquired liabilities should reflect the estimated cost to settle these obligations.

In addition, we do not concur with the Board that changes in estimates of any acquired liability, including contingent consideration, during the measurement period, should be reported in earnings. Estimating certain acquired liabilities, especially contingent consideration, is complex; therefore, adjustments to such estimates are inherent to the accounting process. We believe there is not a rational basis for requiring the reporting of changes in estimates of these items in earnings and we recommend that the final standard require adjustments to the initial purchase accounting entries, during the measurement period, be capitalized.

Equity Investment in Acquiree Prior to Acquisition of Controlling Interest

We concur with the ED's proposed requirement to treat the fair value of an acquirer's equity investment in the acquiree held prior to the acquisition as part of the consideration paid. This accounting requires the equity investment to be adjusted from its book value to its fair value, as of the date of acquisition. The ED would require such adjustments to be reflected in earnings.

We believe that an adjustment of an equity investment to fair value, as of the date of an acquisition of a controlling interest in the acquiree, should be deferred in other comprehensive income. Since the acquirer has not realized the change in fair value in its investment in the acquiree, we do not believe that an earnings adjustment should be recognized. We believe that the earnings event should be consistent with the recognition requirements of SFAS No. 52, "Foreign Currency Translation" (as interpreted by Interpretation No. 37), which requires recognition of all or a portion of the cumulative translation adjustment, that is deferred in other comprehensive income, when there is a sale or liquidation of all or a portion of an investment in a foreign entity.

In-Process Research and Development ("IPR&D")

The ED would supersede FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." This interpretation requires the portion of the purchase price allocated to research activities in process at the date of acquisition to be expensed. The ED would require the value of IPR&D costs to be capitalized in the purchase accounting entries as an identifiable intangible asset and amortized over their expected future lives. Since the exposure draft does not change the accounting for research efforts undertaken subsequent to the acquisition, to further develop the acquired research, these costs would continue to be expensed as incurred.

We find the proposed accounting of the pre- and post-acquisition research efforts to be inconsistent with each other since the pre-acquisition costs would be capitalized as an asset and the post-acquisition costs would be expensed as incurred. We believe that the accounting treatment for both costs should be consistent with the provisions of SFAS No. 2, which requires research and development costs to be expensed, until such time as the Board readdresses the accounting for all research and development costs.

Accounting for Contingencies

The ED would amend SFAS No. 5, "Accounting for Contingencies," to exclude from its scope assets and liabilities acquired from a business acquisition and, instead, require recognition of acquired contingencies under the provisions of CS No. 6.

We believe that this change introduces inconsistencies and complexities in the accounting for contingencies. We believe that a contingency that is not recognized by an acquiree prior to acquisition, due to the proper application of the provisions of SFAS No. 5, should not be recognized as a liability by the acquirer as a result of an acquisition. Accordingly, we recommend that the final standard require acquired contingencies to be accounted for under the provisions of SFAS No. 5.

Restructuring or Exit Activities

The ED's proposed requirements would permit the accrual of the estimated costs of restructuring activities as part of the purchase accounting entries only if the criteria of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," are met as of the date of the acquisition.

This would require a detailed plan, outlining the number and classification of employees to be terminated and their benefits to be received, to be known and communicated on the acquisition date, in order for termination costs to be accrued in purchase accounting entries. In addition other costs, such as contract termination and costs to close facilities, would not be permitted to be accrued in purchase accounting. Instead, they would be expensed when communication of the intent to terminate the contract has occurred or as the services have been provided.

We consider this requirement to be overly restrictive for restructuring costs, that are clearly anticipated as of the acquisition date but not in the detail necessary to meet the recognition criteria of SFAS No. 146. Therefore, we recommend that restructuring plans related to the acquired business that are anticipated as of the acquisition date and are approved, communicated and where implementation has begun within the measurement period be capitalized as an acquired liability in the purchasing accounting entries.

Measurement Period

We concur with the Board that a period of one year should be sufficient to determine the fair value of assets and liabilities acquired. However, we disagree with the proposed requirement to recognize retroactive adjustments to previously issued financial statements resulting from adjustments to the preliminary purchase price allocation. We believe that adjustments to previously reported purchase accounting entries are changes in estimates and the resultant earnings effects from such changes (such as depreciation, amortization and IPR&D expense) should be reported in the period of the change.

In addition, as stated above, all changes in estimates of acquired assets and liabilities during the measurement period should be capitalized in the purchase accounting entries and not reflected in earnings.

Accounting and Reporting of Noncontrolling Interests in Subsidiaries ED

Classification of Noncontrolling Interests as Equity

We do not concur with the ED's requirements to report noncontrolling interests in the balance sheet as shareholders' equity. CS No. 6 defines equity as the residual interest in the assets of an entity that remain after deducting liabilities; however, this statement does not give consideration to the accounting for noncontrolling interests. Therefore, we do not believe that noncontrolling interests meet the CS No. 6 definition of equity.

It is our opinion that the residual interest in the equity section of the balance sheet should reflect only those balances pertaining to the reporting entity's shareholders and not that portion pertaining to a subsidiary of the reporting company's shareholders. We concur that noncontrolling interests do not meet the definition of a liability; however, we believe that noncontrolling interests are unique to financial reporting, requiring separate presentation in the balance sheet. Accordingly, we recommend that the final standard amend CS No. 6 to require a mezzanine section in the balance sheet for the reporting of noncontrolling interests between liabilities and equity, which is where many companies currently classify minority interest.

Disclosure of Noncontrolling Interests in: Comprehensive Income, Other Comprehensive Income, Components of the Income Statement (from Continuing Operations, Accounting Changes and Discontinued Operations)

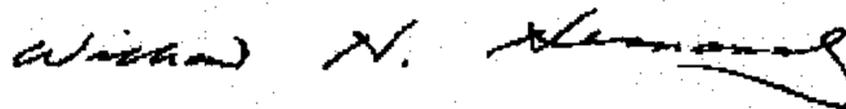
We believe that the disclosures of the controlling and noncontrolling interests related to each element of shareholders' equity and certain elements of net income, is excessive. Furthermore, we believe such disclosures would be overly complicated for users of the financial statements and burdensome to prepare. Disclosure for disclosure sake is not an appropriate burden that preparers' of financial statements should have to bear and we believe that the proposed disclosures represent such a burden. This information is not relevant to the shareholders' of the reporting company and; therefore, should not be required. Accordingly, we believe that the Board should eliminate these disclosure requirements from the final standard.

Disclosure of an Additional Earnings Per Share Metric

We strongly disagree with the ED's proposal to require disclosure of an additional EPS metric that modifies the numerator to include adjustments for changes in equity related to changes in ownership interests in subsidiaries with noncontrolling outstanding interests. The Board comments that "some users of financial statements might be interested in how increases or decreases to equity would affect earnings per share." We do not believe that this is important information to investors. Furthermore, disclosures should not be made for "items of interest," they must be meaningful and useful to the financial statement readers. We believe that it is inappropriate to burden financial statement preparers with requirements to compile "nice to have" disclosures. As financial statement disclosures grow in complexity and volume, we are concerned that users have increasing difficulty in determining what information is truly important.

Thank you for the opportunity to express our comments. Should you have any questions regarding our comments, please contact David Navikas, Vice-President and Controller, at 412-434-3812.

Sincerely,



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cc: Carolyn Ihrig
David Navikas