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Ms. Suzanne Bielstein
Director, Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 25
File Reference: 1205-001

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Dear Ms. Bielstein:

BDO Seidman, LLP is pleased to offer comments on the FASB's June 30, 2005 Exposure Draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries – a replacement of ARB No. 51*.

Summary of our Comments

In our opinion, the proposal will not improve the usefulness of financial statements. Instead, it will dramatically change practice in this narrow area, requiring preparers, auditors, and users to master a new but inferior model, while relegating to the footnotes information that today is transparently disclosed on the face of the balance sheet and income statement.

We believe that the most significant deficiency of the proposed approach is the loss of accountability through the income statement for the success or failure of a business combination. Under today's accounting, a buyer records a business acquired in steps at its total cost. If and when the business is subsequently disposed, in whole or in steps, the buyer records gain or loss for the difference between the purchase cost and the sales proceeds. Thus, there is a final accounting through the income statement for the success or failure of the acquisition. Under the proposed approach, part of the purchase cost in a step purchase and the gains or losses on partial disposals are buried forever in shareholders' equity, with no ultimate accountability in the income statement for the success or failure of the acquisition.

The remainder of the letter consists of our comments on the issues for respondents.

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

No. We believe that the noncontrolling interest is not part of the equity of the consolidated entity. Its rights differ significantly from the rights of the owners of the parent company and should not be commingled in shareholders' equity. Instead, we

believe that noncontrolling interest should continue to be displayed outside of shareholders' equity, with changes in the amount reflected in the income statement.

We acknowledge that noncontrolling interests do not meet the definition of a liability under FASB Concepts Statement No. 6. But this factor should not be dispositive. The departure from the definition is harmless and should not be changed. Not every instance of nonconformity with the Board's Conceptual Framework needs to be expunged from GAAP. If the nonconformity is harmless, the Board should leave well enough alone and not attempt to fix something that isn't broken. In this case, as discussed above in the summary and below in our responses to other questions for respondents, we believe the proposed changes make the accounting worse (less useful), rather than better.

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?

If the Board proceeds with the proposal, then we agree with the proposed requirement to present the noncontrolling interest separately from the equity of the parent company's shareholders. The rights of the noncontrolling interest differ significantly from the rights of the owners of the parent and should be presented separately. We note that present practice already achieves this separate presentation.

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 generally agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests. However, we disagree with the Board's decision to allocate losses to the noncontrolling interest when such losses exceed the noncontrolling interest in the subsidiary's equity and result in a negative (debit balance) noncontrolling interest.

If a subsidiary incurs losses and the share attributable to the noncontrolling interest drives the noncontrolling interest negative (debit balance), the debit is not representationally faithful. The controlling interest ordinarily has no claim on the noncontrolling interest. In fact, usually the noncontrolling interest is in the form of shares of a corporation or limited partner interests that explicitly are not at risk for losses in excess of investment. Therefore, the one thing we know for sure is that the noncontrolling interest will not absorb the losses allocated in excess of the investment. Because the noncontrolling interest will not absorb those losses in excess of their investment, we see three possible outcomes:

1. The controlling interest will absorb them,
2. The subsidiary's creditors will absorb them, or

3. The losses will never be realized because either (a) the subsidiary has unrecognized asset appreciation that will more than cover the losses or (b) the subsidiary will earn future profits that will erase the losses.

Each outcome reveals that the debit balance for the noncontrolling interest is not representationally faithful:

1. If ultimately the controlling interest absorbs the losses, perhaps because the controlling interest has other relationships that effectively preclude the controlling owner from abandoning the subsidiary to its creditors, then the debit balance for the noncontrolling interests turns out with hindsight to be a deferred loss.
2. If ultimately the creditors absorb the losses, then the debit balance for the noncontrolling interests turns out with hindsight to be a "valuation allowance" against the subsidiary's debt and a premature recording of an extinguishment gain.
3. If ultimately the loss is not realized because of asset appreciation or future operating profits, then the debit balance for the noncontrolling interest turns out with hindsight to be either (a) a non-GAAP unrealized gain on the subsidiary's assets or (b) a non-GAAP recording of future earnings.

We would not allow a company to record credits to current earnings and debits to other comprehensive income for deferred losses, future extinguishment gains, unrealized gains on assets that are not permitted to be recorded under GAAP, or future profits. Yet in effect that is exactly what the FASB proposes to require, except that the "hanging debit" in shareholders' equity is described as the noncontrolling interest rather than other comprehensive income.

We agree with the Board's conclusion that if the controlling and noncontrolling interest holders enter into a contractual arrangement that requires an attribution different from their respective ownership interest, then net income or loss and other comprehensive income should be allocated accordingly. This guidance, which does not exist in current pronouncements, would be an improvement.

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?

No. We believe that every purchase of an ownership interest is a purchase transaction and that every disposal of an ownership interest is a sale transaction for which gain or loss is recorded. As we noted in the summary of our comments, this particular part of the proposal is the most troublesome to us, because it fails to hold management accountable for the costs incurred in acquiring a business and requires part of the cost, as well as part of the gain or loss on disposal, to permanently bypass the income statement.

Whether an individual transaction causes the investor to obtain or lose control does not change its essential nature as a purchase or sale. We believe that the purchase of an additional interest in a consolidated subsidiary is a purchase transaction that should be

reflected as part of the parent's investment in the subsidiary, not an equity transaction. Likewise, we believe that the sale of a portion of a parent's interest in a subsidiary with an independent buyer is an exchange transaction for which a gain or loss should be recognized, not an equity transaction.

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

No. We do not believe that a gain or loss should be recognized on the remeasurement of a retained investment. Gain or loss should be recorded when realized in a sale transaction. Loss also should be recorded in the event of an other-than-temporary impairment.

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?

Under today's accounting, no such guidance is needed, because all sale transactions result in gain or loss recognition. The accounting is the same whether multiple arrangements are accounted for individually or combined.

The Board's proposal, by contrast, creates an incentive and an opportunity for sellers to structure sales of impaired subsidiaries in two steps—a sale of 49% for which the loss will be forever buried in shareholders' equity, followed by a sale of the remaining 51% for which the loss will be recorded in income. If the Board moves forward with this flawed proposal, then we agree that preparers should assess whether multiple arrangements that result in a loss of control should be accounted for as a single arrangement. We also support including factors to consider for determining whether multiple arrangements should be accounted for as a single arrangement. We believe the guidance should be expanded to cover situations in which multiple arrangements span more than one reporting period.

The need for this guidance should be a signal to the Board that the proposal is fundamentally flawed.

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, consistent with current practice, we agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interests and that the presentation of earnings per share information is primarily for the benefit of the controlling interest shareholders.

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?

Today, the majority and minority shares of consolidated net income are transparently displayed on the face of the income statement. Under the proposal, the income statement no longer will display this information. Thus, the Board needs to introduce a new required disclosure to replace the lost information. In the context of the Board's proposal we agree that the proposed disclosure is useful, but we don't believe that the proposed disclosure is an adequate substitute for today's better accounting.

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

For entities with material amounts of noncontrolling interests, we believe that disclosure of the transactions that affect the balance of noncontrolling interests is useful and desirable. However, we believe that the Board should allow flexibility in the placement and format of the disclosure. In some cases the transactions may be sufficiently complex that a full reconciliation of changes is necessary. In other cases, income attributable to the noncontrolling interests may be the only activity and the reader can do the addition or subtraction from information already presented. In still other cases, the activity other than income attributable to noncontrolling interests may be a single item that is more easily disclosed directly, without a full reconciliation.

Questions 10, 11, and 12: Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? 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? Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?

As noted previously, we believe that the amounts that are added to and subtracted from the controlling owner's equity under the Board's proposal represent either purchase cost (for increases in the controlling interest) or gain/loss (for decreases in the controlling interest). We are uncertain why users would find this information useful, other than to adjust the financial statements back to what they would have been under current accounting. If that is the purpose, it suggests that the Board should not change the current accounting, making the proposed disclosure unnecessary.

Similarly, the purpose of the alternative earnings per share measure seems to be to adjust earnings per share for the gains and losses on disposal that are buried in shareholders' equity under the Board's proposed approach. Under current accounting, those gains and losses are reported in earnings and in earnings per share without the necessity of special disclosures.

Finally, the disclosure of the gain or loss recognized on loss of control seems to be oriented at disclosing the amount of the gain or loss recorded on the retained interest, presumably so users can disregard that gain or loss on the interest that wasn't sold. Again, it seems better to retain current accounting, making the disclosure unnecessary.

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

Yes, we agree with the proposed transition requirements. We understand that retrospective application is the preferred method of adoption for new pronouncements. We believe the proposed exceptions in paragraph 34 appropriately exclude those provisions that would be costly and burdensome to apply retrospectively.

We would be pleased to discuss our comments with the Board or FASB staff. Please direct questions to Ben Neuhausen, National Director of Accounting, at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP