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October 28, 2005

Suzanne Q. Bielstein
Director-Major Projects and Technical Activities
Financial Accounting Standards Board
PO Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 98
File Reference: 1204-001

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Dear Ms. Bielstein:

Thank you for allowing Convergys Corporation the opportunity to comment on the Proposed Statement of Financial Accounting Standards, "Business Combinations a replacement of FASB Statement No. 141" (hereafter referred to as the "Exposure Draft"). Our responses to the questions you asked in the Exposure Draft are shown in order.

Question 1-Objective, Definition, and Scope

Question 1-Are the objective and the definition of a business combination appropriate for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

Response: We believe that the objective and the definition of a business combination are appropriate.

Question 2-Definition of a Business

Question 2-Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition?

Response: Yes. We believe the proposed definition of a business is an improvement over guidance prescribed in EITF Issue No. 98-3 "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business".

Questions 3-7-Measuring the Fair Value of the Acquiree

Question 3-In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent

of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest? If not, what alternative do you propose and why?

Response: Although we understand the complexities associated with the existing accounting for step acquisitions, we are not convinced that the proposed accounting treatment will result in more useful or transparent financial statements. Therefore, we urge that the Board retain the existing accounting treatment.

Question 4-Do paragraphs A8-A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

Response: We believe the guidance is sufficient.

Question 5-Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisitions date, when should they be measured, and why?

Response: Other than the proposed treatment related to contingent consideration (see our response to Question 6), we agree with the guidance prescribed in the Exposure Draft.

Question 6-Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

Response: In connection with several business combinations that we consummated in recent years, we have used earn-outs to resolve differences in opinion over valuation with the sellers. If the targeted operating results are met, this is confirmation to us that the value of the acquired business is closer to what the seller believed it was worth. If targeted operating results are not met, this is confirmation that the value is closer to what we believed. Although we appreciate the Board's desire to eliminate the existing costs accumulation and delayed recognition approach for contingent consideration, we do not support the proposed accounting treatment for contingent consideration prescribed in the Exposure Draft. We believe that the requirement to record to the income statement any difference between the initial fair value of the earn-out and the final amount of the earn-out, would distort the financial statements. Furthermore, we believe this requirement would prompt constituents, including Convergys, to discontinue the use of earn-outs. In effect, the accounting rules would drive change in sound business practice, which we cannot support. Accordingly, we believe the Board should consider either (a) retaining the existing accounting treatment related to contingent consideration or (b) modifying its proposed accounting treatment by requiring that any subsequent changes in the fair value of the contingent consideration be recorded as part of the investment as opposed to the income statement.

Question 7-Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

Response: No. While we understand the Board's argument, we disagree with the rationale for expensing these costs as incurred. When we pursue an acquisition, we actively consider in our business models the transaction costs we expect to incur in connection with the acquisition. Based on our experience, transaction costs impact the amount we are willing to pay for a business. We assert, as other constituents have asserted, that these costs are an unavoidable cost of the investment. Therefore, for the same reason that transaction costs incurred in connection with the acquisition of tangible property are capitalized as part of the carrying value of the property, transaction cost incurred in connection with the acquisition of a business should be capitalized as part of the investment in the acquired business.

Questions 8-9-Measuring and Recognizing the Assets Acquired and the Liabilities Assumed

Question 8-Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you proposed?

Response: We also do not agree with the proposed treatment of costs associated with restructuring and exit activities that is prescribed in paragraph 37. We understand the Board's desire to treat exit costs consistently with FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". However, we believe that most constituents regard costs incurred in connection with exit activities that are contemplated at the time of the transaction, as part of the investment in the acquired business. In addition, similar to transaction costs, exit costs impact the amount we are willing to pay for a business. In our opinion, the requirement to expense all exit costs ignores the economic substance of these activities and will result in a distortion of the financial statements. We support retaining the existing guidance prescribed by EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

In addition, although we concede that the current accounting model for pre-acquisition contingencies is not without flaw, we are skeptical that the proposed accounting for pre-acquisition will result in an improvement in financial reporting. Accordingly, we support retaining the existing model.

Question 9-Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

Response: We believe that the exceptions are appropriate.

Questions 10-12-Additional Guidance for Applying the Acquisition Method to Particular Types of Business Combinations

Question 10-Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternatives do you propose and why?

October 28, 2005

Page 4

Response: As noted in our response to Question 3, we support retaining the existing accounting treatment.

Question11-*Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?*

Response: We have no issues with the proposed accounting.

Question12-*Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances.*

Response: We have no issues with the proposed accounting.

Question 13-Measurement Period

Question13-*Do you agree that comparative information for prior periods presented in the financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?*

Response: We are in agreement.

Question 14-Assessing What is Part of the Exchange for the Acquiree

Question14-*Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assume or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed.*

Response: We are in agreement.

Question 15-Disclosures

Question15-*Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?*

Response: We believe the disclosure requirements are appropriate.

Questions 16-18-The IASB's and the FASB's Convergence Decisions

Question16-*Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:*

- a. *The intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in connection with a related contract, asset or liability*

b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

Response: Yes. We have had success measuring identifiable intangible assets.

Question17-Do you agree that any changes in acquirer's deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

Response: We have no issues with the proposed treatment.

Question18-Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should to be achieved?

Response: We have no issues with the disclosure differences.

Question 19-Style of This Exposure Draft

Question19-Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type but are in plain type, or vice versa?

Response: Yes.

If you have any questions pertaining to our responses, please feel free to contact John Eberhart at (513) 784-6514. Thank you for your consideration.

Sincerely,



John Eberhart
Director of Reporting
Convergys Corporation

cc: Timothy Wesolowski, Corporate Controller
Earl Shanks, Chief Financial Officer