Letter of Comment No: 87 File Reference: 1204-001



October 28, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CN 06856-5116

File Reference No. 1204-001

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Exposure Draft of a Proposed Statement, *Business Combinations*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

The Committee agrees with the major conclusions of the Exposure Draft, with the following comments:

Question 3: Accounting for the acquisition.

We do not agree with the proposed accounting for subsequent acquisitions of non-controlling interests (paragraph 57). We believe that such additional acquisitions should be recorded at fair value with adjustments to assets and liabilities of the subsidiary, including adjustments to goodwill.

Question 7: Costs that the acquirer incurs in connection with a business combination

In composing our response to the notice for recipients of the exposure draft, we considered two aspects of this question separately: (1) whether costs incurred are an asset and (2) whether costs incurred should be considered in measuring the consideration paid for the acquiree. On the first issue, we agree that the costs incurred do not meet the definition of an asset per se. However, we believe that the costs are likely to be incurred in any business combination transaction and will be taken into consideration by any potential acquirer. Therefore, such transaction costs are taken into consideration in the

measuring the fair value of a business by both the acquirer and the acquiree, regardless of who incurs the cost. In particular, acquirers consider such costs to be part of the basis for the acquired business for determining the required return on investment. Therefore we believe such costs are a factor in measuring the fair value of the acquisition.

Question 10: Gain or loss on previously acquired noncontrolling equity investments

The proposed standard considers previously acquired noncontrolling equity investments to be part of the consideration paid for the acquisition. We believe that this perspective is questionable as the previously owned equity has not been transferred to an outside party. The gain or loss on revaluation of the previously acquired equity is to be recognized in income. Some of the committee members are concerned about the implications of recognizing those amounts in income. The concerns are similar to those expressed in our response to the related Exposure Draft of a Proposed Statement, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries. There could be potential for abuse of mark to market accounting when entities make use of multiple subsidiaries for various purposes. Remeasurement of previously acquired equity at fair value and recognition in income would permit parent entities potentially to recognize a portion of the present value of the future earnings of the subsidiary into income at will by purchasing (or selling) "control" of the subsidiaries. Some members are not convinced an earnings process has been completed and that such an event meets the criteria for recognition into income. They suggest it may be better to account for such transactions in other comprehensive income or as equity transactions as proposed for transactions that do not result in a loss of control in the related exposure draft.

Question 12: Overpayment by the Acquirer

We believe it is difficult to assert that an acquirer has overpaid for an acquiree given the presumption in the exposure draft that "the best evidence of the fair value...would be the fair values of all items of consideration transferred..." That being said, we can conceive of many situations where attributes of an acquiree may be of more value to one acquirer than another. For example, in the 1980s, the "BAYER" cross trademark was owned by Bayer AG everywhere in the world but the United States. It was owned here by an unrelated party who could only use it for Bayer Aspirin. Bayer AG was willing to pay more for that trademark than any other U.S. manufacturer as it was more valuable to Bayer AG than to anyone else.

Question 15: Disclosures

We agree with the proposed disclosure objectives. However, we request that the Board identify which disclosures may be less relevant or cost effective for smaller or nonpublic entities. For example, the disclosures in paragraphs 72f and 72g may not be less relevant for the users of financials statements of acquirers that are not a public enterprise.

Question 17: Tax benefits of the Acquirer

See our response to Question 12. We believe that tax benefits of the Acquirer that become valuable solely as a result of an acquisition are factored into the price the Acquirer is willing to pay and are effectively included in goodwill at the time of the acquisition.

Other Issues

The Committee would like to request that the effective date of the Statement be at least six months from the issue date of the final statements on business combinations and noncontrolling interests. The proposed accounting standards are complex and constitute a significant change to current practice that will require considerable training on the part of accountants, auditors, valuation professionals and other experts to understand and implement the new accounting standards.

The members of the Accounting Principles Committee of the Illinois CPA Society thank you for the opportunity to respond to this Exposure Draft. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

James L. Fuehrmeyer, Jr., Chair Accounting Principles Committee

APPENDIX A

ILLINOIS CPA SOCIETY ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES

2005-2006

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large (National Firms):

James L. Fuehrmeyer, Jr., CPA

Brian L. Heckler, CPA

John A. Hepp, CPA

Steven C. Johnson, CPA Lisa M. Koblinski, CPA

Kirsten M. Lescher, CPA

Matthew G. Mitzen, CPA

Mark K. Scoles, CPA

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John M. Stomper, CPA

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Medium (more than 40 employees):

Marvin A. Gordon, CPA

Ronald R. Knakmuhs, CPA

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James B. Lindsey, CPA

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Educators:

David L. Senteney, CPA

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Charles A. Werner, CPA

Staff Representative:

Paul E. Pierson, CPA

Deloitte & Touche LLP

KPMG LLP

Grant Thornton LLP

McGladrey & Pullen LLP

Ernst & Young LLP

Plante & Moran, PLLC

RSM McGladrey Inc.

Grant Thornton LLP

BDO Seidman LLP

Deloitte & Touche LLP

Blackman Kallick Bartelstein LLP

Baygood & Rose Chartered

Miller, Cooper & Co. Ltd.

Ostrow, Reisin, Berk & Abrams, Ltd.

Walter J. Jagiello, CPA

Benham, Ichen & Knox LLP

Cray, Kaiser Ltd., CPAs

William F. Gurrie & Co., Ltd.

McDonald's Corporation

The Boeing Co.

TTX Company

Retired/Natural Gas Pipeline Company of America

Ohio University

University of Illinois at Chicago

Loyola University

Illinois CPA Society