



## Business Roundtable

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October 27, 2005

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Letter of Comment No: 74  
File Reference: 1204-001

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Re: *FASB Exposure Draft. Proposed Statement of Financial Accounting Standards, "Business Combinations, a Replacement of FASB Statement No. 141"*

Dear Mr. Herz:

This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees and \$4 trillion in annual revenues. We appreciate the opportunity to provide our views on the Financial Accounting Standards Board (the "Board") Exposure Draft on Business Combinations ("Exposure Draft"). While Business Roundtable appreciates the tremendous effort that has gone into this project, we have some high-level concerns that we want to bring to your attention. Not only will this Exposure Draft, if adopted, change the way all companies reflect business combinations in their financial statements, but it also may have implications for future accounting standards considered by the Board.

First, the Exposure Draft seeks to apply a "fair value" model to accounting for contingencies and non-financial instruments. We are concerned that this approach raises reliability issues as it is very difficult to measure the fair value of these items. In contrast to financial instruments, there is no reference market and often no other independent valuation benchmarks to be used in measuring fair value.

Second, and also with respect to contingencies, the Exposure Draft requires the recording of a liability as of the purchase date for all contingencies based on an estimate of the fair value of these contingencies, even those that are remote, and then requires that changes in the expectation of future settlements be reflected in earnings. This approach is inconsistent with FASB Statement No. 5, which governs accounting for contingencies and provides that a liability is not recorded until the underlying loss is both probable and estimable. Moreover, companies' efforts to perform mark-to-market for these contingencies would be highly judgmental, complicated and time-consuming.

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Third, the Exposure Draft requires that third-party costs and restructuring costs incurred in connection with a business combination be accounted for separate and apart from the purchase—as an expense rather than as part of the acquisition. Acquirers view these costs as part of the total purchase price, and therefore to expense them would not reflect economic substance. Moreover, it would distort current period earnings and negatively impact business combination activity.

Finally, these changes, as well as others incorporated in the Exposure Draft, would result in increased income statement volatility in subsequent periods. This would make it more difficult for investors to understand the current operating performance of the combined entity following the business combination. This cannot be the Board's intention.

Thank you for considering our comments. Please do not hesitate to contact Thomas Lehner at Business Roundtable at (202) 872-1260 if we can provide you with further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Odland". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Steve Odland  
Chairman and CEO, Office Depot, Inc.  
Chairman, Corporate Governance Task Force,  
Business Roundtable