



AFFILIATED MANAGERS GROUP, INC.

600 Hale Street • Prides Crossing • MA 01965 617-747-3300 Fax 617-747-3380 info@amg.com

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director@fasb.org

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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Reference No. 1205-001 – Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries – a replacement of ARB No. 51

Dear Ms. Bielstein:

Affiliated Managers Group, Inc. (“AMG”) appreciates the opportunity to comment on the FASB’s exposure draft of a Proposed Statement of Financial Accounting Standards, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries – a replacement of ARB No. 51* (the “Exposure Draft” or the “Proposed Standard”).

We are highly supportive of standards that both increase the comparability of financial statements and use additional footnote disclosure to promote transparency of information provided to users of those financial statements. We support the efforts of the FASB to improve the consistency of the procedures used in the accounting for and reporting of noncontrolling interests. We also support the FASB’s joint efforts with the IASB promoting the convergence of accounting standards. We agree with the Board’s view that the Proposed Standard should provide guidance that resolves the diversity in practice that exists in accounting for and reporting of noncontrolling interests; however, if the Proposed Standard is adopted in its current form, we believe that financial information will be less relevant and lack the transparency that the Proposed Standard is attempting to achieve.

In order to achieve the project’s stated goals, we believe that there are several matters that should be reconsidered in order to improve the existing proposal. The most notable of these matters is the artificial reduction of the controlling interest’s stockholders’ equity that results from transactions between controlling and noncontrolling interests. Our key comments on the Exposure Draft, including our proposed alternatives are discussed below.

We hope that our comments will assist the Board in identifying potential alternatives to the issues raised.

Affiliated Mangers Group, Inc.
Responses to Notice for Recipients

Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests

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?

The Proposed Standard provides that net income, including other comprehensive income, should be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the parties have entered into an arrangement that requires a different attribution. The Proposed Standard, however, requires goodwill impairment losses to be allocated to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill, irrespective of contractual terms that may exist between equity holders that might allocate gains or losses other than on a pro rata basis.

We believe that allocating an impairment loss on a pro rata basis using the relative carrying values of goodwill assigned to the controlling and noncontrolling interests may not reflect the economic realities or the contractual arrangements that exist between equity holders. Equity holders often enter into contracts that subordinate the value of the noncontrolling interests. For example, a preferred profit distribution to the controlling interest can ensure that certain profit levels are achieved by the controlling interest at the expense of the noncontrolling interests. Because of this contractual priority, declines in the profits of the overall entity could decrease the fair value of the noncontrolling interests without impacting the fair value of the controlling interest.

Alternative

The requirement to allocate an impairment loss on purely a pro rata basis should be reconsidered. An impairment loss should be attributed on a pro rata basis unless contractual arrangements exist between equity holders that provide a priority of earnings to one party (e.g. the controlling interest) that protect that party from decreases in the fair value of its interest. In order to determine the amount of any impairment loss to be recognized, the fair value of the affected asset would need to be measured. The allocation of the fair value between the controlling and noncontrolling interests based on the contractual arrangements that exist would be a natural extension of the valuation process. This process would provide sufficient information to more accurately allocate any impairment loss in a manner consistent with the economic realities of the contractual arrangements that exist and the fair value of the underlying equity.

Changes in Ownership Interests in a Subsidiary

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?

Transactions Between Controlling and Noncontrolling Interests

The Proposed Standard indicates that changes in ownership interests in a subsidiary without a change in control are equity transactions that should not result in gain or loss recognition as long as the subsidiary remains consolidated. Any difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, shall be recognized directly in equity attributable to the controlling interest (for example, additional paid-in capital).

While we appreciate the view that transactions between controlling and noncontrolling interests should not result in gain or loss recognition as long as the subsidiary remains consolidated, we believe that the difference between the carrying value of the interest sold and the fair value paid for such interest needs to be more adequately addressed in the Proposed Standard.

Under the Proposed Standard, if the controlling interest were to purchase an additional 10 percent of the noncontrolling interest's holdings, stockholders' equity would be reduced by the amount of the cash paid to acquire the interest.

We do not believe that a transaction between equity holders that is negotiated and priced using the current fair value of the business should reduce the net equity of the business because the net assets of the business (i.e. goodwill, identifiable intangible assets and net tangible assets) continue to be carried at their historical cost. If presented in a manner consistent with the Proposed Standard, these transactions will result in the reduction of stockholders' equity at amounts representative of the fair value of the business when the financial position of the business will continue to be carried on a historical cost basis. This will cause an artificial reduction in the controlling interest's additional paid-in capital, resulting in the perception of a decrease in value of the business, instead of reflecting the increase in the value of the business upon which the current transaction was based.

In addition, if the controlling interest were to sell 10 percent of its holdings to a noncontrolling interest, while continuing to maintain control, the carrying value of the controlling interest would be transferred to the noncontrolling interest and the difference between the cash received and the carrying value of the controlling interest would be recorded as a reduction in the controlling interest's additional paid-in capital.

The method described in the Proposed Standard that requires the carrying value of the interest to be transferred at its carrying value should be addressed further. This approach does not consider the control premium attributable to the controlling interest which is a component of the controlling interest's carrying value. In addition, the controlling interest may have priority in the underlying capital of the entity that is retained even upon transfer of a portion of the controlling interest. This priority to capital is also a component of the controlling interest's carrying value. Simply transferring the carrying value of the controlling interest to the noncontrolling interest does not consider the attributes of the equity interest sold and may result, as noted in our comments above, in an artificially large reduction to the controlling interest's additional paid-in capital over time.

Alternative

We believe that increases or decreases in the fair value of the business, when evidenced by transactions between equity holders that are transacted at fair value, should continue to result in the step up or down of the net assets of the business. This alternative is discussed further in our comments below regarding the Proposed Standard's transition provisions. Further, we believe that transfers between controlling and noncontrolling interests should be accounted for using the fair value (considering the priority to the underlying capital of the entity) of the interest transferred instead of the carrying value of such interest.

Transition

As we described above, we do not believe 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 solely within equity. However, if the Proposed Standard is adopted as currently drafted, the transition approach offered will not result in financial statements being presented on a comparable basis for business combinations consummated before the adoption of the Proposed Standard. For companies that acquire controlling interests in businesses, there will be a permanent difference in the method of accounting for acquisitions completed before and after January 1, 2007. This difference will make comparability of financial statements difficult for financial statement users.

For example, assume that Company A acquires 80 percent of the equity interests of a business prior to the adoption of the Proposed Standard (the Initial Acquisition). The remaining 20 percent continues to be held by then-existing equity holders. On March 31, 2007, Company A purchases an additional 10 percent from the noncontrolling interest. This would currently be accounted for as a "step acquisition" with goodwill, and any tangible and intangible assets, being recorded for the additional 10 percent of the business acquired. Under the Proposed Standard, this transaction would be reported as an equity transaction. The noncontrolling interest would be removed from the balance sheet at its historical carrying value, which excludes the unrecognized goodwill and intangible assets attributable to the noncontrolling interest. The difference between carrying value and the cash paid to acquire the interest would reduce Company A's additional paid-in capital. Conversely, if the Initial Acquisition were to occur after the adoption of the Proposed Standard, the reduction of the controlling interest's additional paid-in capital would be limited to the change in the fair value of the noncontrolling interest from the date of the Initial Acquisition.

Because the full goodwill method will never be applied to the Initial Acquisition, over time the Proposed Standard could significantly and artificially reduce the total additional paid-in capital of Company A. While we understand that the transition provisions were selected to make application of the Proposed Standard less onerous for financial statement preparers, the lack of appropriate (or alternative) transition provisions will lead to a permanent difference in the basis of accounting for acquisitions. This will make the financial position of entities with similar characteristics look remarkably different based only upon whether the business combination was consummated before or after the adoption of the Proposed Standard. It will also distort the equity attributable to the controlling interest. We propose the following alternatives that aim to achieve the ultimate comparability of financial statements.

Alternative A

The acquisition of additional interests by the controlling interest from the noncontrolling interest would continue to be accounted for as “step acquisitions” until such time as the controlling interest owned all or substantially all of the business. The threshold for “substantially all” of the business could be based on the facts and circumstances in each case or the Board could define this threshold as a fixed percentage, for example ninety-five percent of the underlying equity interests. When this threshold was met, the final step up would occur and the process of converging to the full goodwill method would be complete. Any future acquisitions of equity interests by the controlling interest from the noncontrolling interest would be accounted for by increasing goodwill. This transition method would provide for the convergence to the full goodwill method over time, albeit a potentially lengthy period of time. It would further avoid the artificial reduction to the controlling interest’s additional paid in capital that would likely result from future transactions with noncontrolling interests and more accurately reflect the fair value of the business at the time the interests are exchanged.

Alternative B

The acquisition of additional interests by the controlling interest from the noncontrolling interest in the post adoption period would constitute a “triggering event” that would require the recognition of the goodwill, intangible assets and tangible net assets attributable to the entire remaining noncontrolling interest. This final step up would effectively transition the business to the full goodwill method at a time when the fair value of the business was more readily determinable because of the current transaction between the controlling and noncontrolling interests. This transition method would provide for the convergence to the full goodwill method immediately upon the consummation of a transaction between the controlling and noncontrolling interests. Any future acquisitions of equity interests by the controlling interest from the noncontrolling interest would be accounted for by increasing goodwill. This transition method would provide for the convergence to the full goodwill method immediately upon a triggering event. It would further avoid the artificial reduction to the controlling interest’s additional paid in capital that would likely result from future transactions with noncontrolling interests and more accurately reflect the fair value of the business at the time the interests are exchanged.

The Board has acknowledged that the transition provisions of the Proposed Standard diminish some benefits of improved reporting provided by the Proposed Standard. We support Alternative A as the preferred transition method.

Reattribution of Goodwill

The Proposed Standard stipulates that if the relative ownership interests held by the controlling and noncontrolling interests in the subsidiary change, goodwill shall be reattributed between the controlling and noncontrolling interests based on the relative carrying amounts of goodwill allocated to them. Similar to the rationale described in our response to Question 3, the reattribution of goodwill between the controlling and noncontrolling interests based on the relative carrying amounts of goodwill allocated to them may not be representative of contractual arrangements that exist between the parties, or more importantly, the relative fair value of the interests at the time the ownership interests are exchanged.

Alternative

Goodwill should be reattributed between the controlling and noncontrolling interests based on the relative fair value of the interests at the time the ownership interests are exchanged.

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?

The Proposed Standard requires that earnings per share data be presented to disclose an additional per-share metric that includes in the calculation the effects of any equity transactions between the controlling and noncontrolling interests.

The Proposed Standard provides that ownership changes in a subsidiary without a change in control are equity transactions that should not result in gain or loss recognition as long as the subsidiary remains consolidated. As a result, the income statement classification of these gains and losses provided by SAB Topic 5H (“SAB 51”) will no longer be available. We believe that the benefits of this additional per-share metric are minimal and the presentation of these types of transactions within earnings, for earnings per share purposes, is inconsistent with the view proposed in the standard that changes in ownership interests in a subsidiary without a change in control are equity transactions that should not result in gain or loss recognition as long as the subsidiary remains consolidated.

Alternative

This additional per-share metric should not be required. Alternatively, disclosure of this additional per-share metric could be required only for companies that had previously accounted for SAB 51 gains and losses in the income statement.

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We appreciate the opportunity to comment on the Exposure Draft, as well as the opportunities to share our views with you during last year's field visit and yesterday's roundtable discussion. If you should have any questions concerning our comments or our proposed alternatives, we would be happy to participate in discussions with the FASB staff, Board members or, if desired, we would also be pleased to meet. Please feel free to contact me at (617) 747-3308 at any time.

Sincerely yours,



Darrell W. Crate
Executive Vice President and
Chief Financial Officer

cc: Daniel J. Shea, Affiliated Managers Group, Inc.
Aaron M. Galis, Affiliated Managers Group, Inc.
Jan Hauser, PricewaterhouseCoopers LLP
John Stadtler, PricewaterhouseCoopers LLP