

Technical Director
File Reference 1204-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

October 28, 2005

Letter of Comment No: 42 File Reference: 1204-001

RE: Exposure Draft of Proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141"

Ladies and Gentlemen:

Citigroup appreciates the opportunity to consider on the Exposure Draft, Proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141" (the "Proposal") and participate in the roundtable discussions. Although we are supportive of the international convergence effort, we are not supportive of this Proposal as we believe it goes well beyond convergence to overhaul purchase accounting procedures significantly in the absence of a clear need on the part of financial statement users or abuse on behalf of financial statement preparers. We believe much of the underlying basis for the Proposal relates more fundamentally to the Conceptual Francework project and should first be addressed as part of that project before promulgation of a new, complex business combinations standard that will inevitably require significant maintenance.

One example of the need to resolve fundamental framework questions before overhanling purchase method accounting would be found in the "full fair value" approach to measuring goodwill, including its application to step acquisitions. Only after accepting that the "economic unit" view is conceptually superior to the "parent company" view can one accept that the "full fair value" approach is appropriate. Though we strongly favor the "parent company" view as being the most relevant to both current and future investors, we acknowledge that no consensus has been reached on the underlying conceptual framework question that could be used as a reasonable basis for making such a significant change to existing practice in accounting for business combinations.

Beyond the Conceptual Framework dilemma, we have several key concerns about the proposed amendment. First, we are concerned with the extension of a fair value model to non-financial assets and liabilities including contingencies and contingent consideration. We strongly support the Alternative View expressed in paragraphs B205-211 and fail to see a strong conceptual basis for such a significant change. We are concerned that the proposed approach can quickly lead to abuses given the inherent unreliability of such fair value measures combined with the proposal to mark these contingencies to fair value through the income statement subsequently.



Second, we disagree with the presumption in the Proposal that restructuring and acquisition-related costs are not an integral part of the fair value of an acquisition. To the extent that these costs are direct and incremental to the acquisition, we fail to see how they should be treated differently from the consideration paid to the seller as they collectively represent part of the purchase price to the acquirer. Further, this Proposal would create a different model in accounting for costs associated with acquisitions of assets that occur separately or as part of a business combination. Similar to current accounting for fixed asset acquisitions, we believe that the cost of a business combination should continue to include expenditures incurred to place the acquired business in a usable condition for the purchaser.

In addition to these points, we have included comments on certain of the questions in the Notice to Recipients in the Appendix to this letter.

净未净

We would be pleased to further discuss our comments you at your earliest convenience.

Sincerely,

Robert Traficanti
Vice President and Deputy Controller



Appendix - Responses to Selected Questions

Question 1 - Objective, Definition, and Scope

We disagree with the proposal to measure stock consideration paid as of the closing date and support the continued application of EITF Issue No. 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination, as we believe that ancillary events, such as approval from shareholders and regulators, should not have an impact on fair value. An acquirer's evaluation of a target is based upon the announcement date economics and, accordingly, form the most appropriate fair value basis of an acquired company. Changes in the market price of securities subsequent to this date bear no correlation to the value of what will be acquired and, accordingly, should not become part of the basis of what was acquired. If there were significant decreases in the acquirer's stock price prior to the acquisition date, the resulting carrying amounts of assets and liabilities would not reflect economic reality.

Question 3 – Recording Full Fair Value of Acquiree in less than 100% Acquisitions

We expect constituents to face problems in estimating the full fair value of the acquiree in situations where the acquirer is acquiring less than a 100% stake. The presence of factors such as a control premium would make a simple extrapolation inappropriate. Any estimates would therefore require significant subjectivity and at best would only be directionally accurate.

Additionally, recording the full amount of fair value adjustments, identifiable intangibles and goodwill even in less than 100% acquisitions would pose problems in ongoing accounting. Items such as amortization of fair value adjustments and intangible assets recognized as part of purchase accounting would require allocation between controlling and noncontrolling shareholders and would then need to be accounted for separately in order to derive income attributable to each. Further, significant challenges will be faced in tracking goodwill related to noncontrolling interests, since any goodwill created would be allocated to the acquirer's reporting unit and lose its separate identity. It is unclear what impact this will have on goodwill impairment testing and how impairment for a noncontrolling interest would be calculated.

Consistent with our view that the consolidated financial statements are for the benefit of the controlling shareholders (the "parent company" view), we question the utility of applying the "full fair value" model and whether the benefits, if any, outweigh the significant operational and financial burden that constituents would incur. We urge the Board to first resolve the fundamental debate over "parent company" view versus "economic unit" view before issuing a standard that uses the "economic unit" view as the underlying conceptual cornerstone.



Question 6 -- Contingent Consideration

Contingent consideration mechanisms are often negotiated to bridge differing views on the fair value of a business combination. As such, we find it curious to mandate fair value accounting for something that results directly from the inability of two parties to agree on fair value. In addition to introducing significant subjectivity into financial statements, the proposed accounting also requires contingent consideration to be marked to fair value through earnings. This would lead to the potential expensing of amounts that are components of an acquirer's purchase price. We fail to understand the rational behind such an outcome. We would urge that contingent consideration continue to be recorded when the related contingency is resolved as currently required by FAS 141.

Question 7 - Transaction Costs

We do not agree with the proposal to expense acquisition-related costs. In our view, such costs are an integral part of the purchase price – and hence the fair value of the acquired business – and should continue to be reflected as such through purchase accounting. The accounting proposed by the Board would effectively institute a separate model for transaction costs related to assets acquired as part of a business combination (expense) and those related to assets acquired outside of a business combination, such as a direct acquisition of fixed assets (capitalized as part of asset). We are troubled by the notion that the form of a transaction would influence the accounting for a particular cost.

Question 8 – Measuring and Recognizing the Assets Acquired and Liabilities Assumed

Contingencies

We disagree with the proposal to deviate from the existing framework for accounting for contingencies in business combinations. In addition to concerns surrounding practical and reliable fair value measurement of such contingencies, the subsequent marking of contingencies to fair value under the proposed rules would result in two different accounting models being applied to the same exposure prospectively, depending on whether it was acquired as part of an acquisition or resulted as part of an entity's normal-course operations. We believe this could lead to confusion among, rather than benefit for, readers of financial statements.

Loans

We disagree with the recording of acquired loans at fair value and the elimination of the acquiree's valuation allowance. Such accounting would render an acquirer's loan ratios and statistics incomparable with peers following an acquisition. Such a disconnect would only increase for more active acquirers. We are also concerned with the lack of guidance on prospective accounting for loans acquired in business combinations and expect constituents to face significant practice issues.

Restructuring Costs

We disagree with the proposal to expense restructuring costs. As with transaction costs



(discussed in Question 7), such costs are integral components of the purchase consideration and are essential determinants of fair value and, therefore, should continue to be capitalized at acquisition.

Question 10 -- Recognition of Gain or Loss on Noncontrolling Investments Held Prior to Acquisition

We disagree with the proposal to remeasure previously acquired noncontrolling interests at fair value, and the resultant recognition of a gain or loss in earnings. We fail to see how the acquisition of an additional ownership stake that results in control is a trigger for a realized or realizable gain as contemplated by paragraph 83 of Concept Statement No. 5. As with the "economic unit" view that underlies much of the conceptual basis for this Proposal, we believe this topic warrants further consideration within the Conceptual Framework project before making significant changes to existing practice.

Question 13 - Measurement Period

We disagree with FASB's proposal to reflect adjustments to provisional amounts through restatements. This proposal would create a daunting operational and reporting burden, especially for constituents that are active acquirers, with questionable benefit to users of financial statements. We believe that the objective of the proposed change – informing users of any material adjustments to the initial purchase price allocation – is already being met by the disclosure requirements of FAS 141.

Question 15 - Disclosures

We generally believe that the additional disclosures required by the Proposal will pose a significant burden to financial statement preparers. Though we are in favor of increased transparency for the benefit of financial statement users, we strongly believe that volumes of additional disclosures would require significant cost and time and would be particularly onerous for active acquirers.

Other - Intangible Assets

We are confused by FASB's proposal to require the recognition of a right that the acquirer had previously granted to the acquiree to use the acquirer's recognized or unrecognized intangible assets. In our view, this is inconsistent with ¶10 of FAS 142, Goodwill and Other Intangible Assets, and could effectively result in the recognition of internally generated intangibles (e.g., brand-name).