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Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
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Proposed FASB Staff Position No. APB 18-a, "Accounting by an Investor for its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, upon a Loss of Significant Influence"

Dear Mr. Smith:

We appreciate the opportunity to comment on the exposure draft of the proposed FASB Staff Position, "Accounting by an Investor for its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, upon a Loss of Significant Influence." We agree with the staff's conclusions as reflected in the proposed FSP and we believe those conclusions are consistent with the concept of associating amounts within Accumulated Other Comprehensive Income (AOCI) with the carrying amount of specific items on the balance sheet giving rise to the AOCI amount.¹

While we agree with the staff's conclusions, there are certain aspects of the proposed FSP that would benefit from further clarification:

- The FSP should include an explanation of the basis for the staff's reasoning.
- The FSP should provide further clarification about the appropriate methodology to apply when the loss of significant influence is due to a sale of a portion of the

¹ That concept is, in part, the basis for the guidance in FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, and FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.



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investment. We believe the investor in that circumstance should allocate the amount in AOCI to the carrying amount of the investment before determining the gain or loss on sale, but the proposed FSP is not clear on that point.

- Paragraph 4 of the proposed FSP makes reference to situations in which the investment was accounted for as an available-for-sale security in accordance with the provisions of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, prior to being accounted for on the equity method. The staff should provide further explanation of the intent of that guidance, including an explanation of the interaction of that guidance with paragraph 19(m) of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. According to paragraph 19(m) of APB 18, an existing investment is to be adjusted retroactively when it first qualifies for the use of the equity method of accounting. As a result, it is unclear whether there would be any remaining AOCI from the period prior to the investor gaining significant influence when the investment was accounted for as an available-for-sale security pursuant to Statement 115. An example would be helpful to illustrate the staff's intent.

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If you have questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Kimber Bascom at (212) 909-5664.

Very truly yours,

KPMG LLP