



March 8, 2007

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

Dear Bob:

The Financial Reporting Committee of the Institute of Management Accountants ("the Committee" or "the FRC") is writing to express its views on the Financial Accounting Standards Board's (the "FASB" or the "Board") Exposure Drafts (the "Drafts or EDs") on Consolidated Financial Statements and Business Combinations (a revision of FASB Statement 141). FRC is the financial reporting technical committee of the Institute of Management Accountants. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We appreciate the significant effort that has gone into this project by both the Board and its staff. However, a significant amount of time has elapsed since the project was initiated, and while the Board has recently addressed and affirmed or revised a number of provisions in the EDs, those provisions that remain to be re-deliberated are generally among the most controversial due to their potential overlap with the Board's current projects on the conceptual framework and performance reporting. We believe the Board will have a very difficult time building a general consensus on the more significant overlapping issues prior to resolving such issues in the conceptual framework and performance projects.





We also believe that if this project is finalized in its current scope, it will add significantly to the complexity of financial reporting - both with respect to preparing and analyzing the financial statements. For example, we believe it will be very complex and costly to determine all contingencies, assess their respective probabilities relative to new recognition thresholds, determine their fair value at acquisition for those meeting minimum recognition thresholds, and then perform ongoing annual or quarterly valuation updates each reporting period to adjust income. We also question whether investors will truly be better informed when acquirers' post acquisition reported results are continuously impacted by changes in the status and ultimate resolution of contingencies, when such contingencies arose pre-acquisition and management has limited ability if any to impact the ultimate resolution. Finally, will investors be better informed when minority interest results and equity is commingled with parent's, or when the parent's economics in a partial or step acquisition are imputed to the minority interests? We believe these results could be counterintuitive and confusing to parent investors.

Accordingly, we respectfully suggest that the Board might be better served by reducing the scope of the EDs to address true convergence issues, and allowing the other foundational issues to be resolved first through the conceptual framework project.

More specifically, we observe that the following fundamental changes in the accounting model proposed by the ED would be better dealt with in the conceptual framework and performance reporting projects:

- Parent company view of the reporting entity versus the economic unit view, with all of its attendant consequences for step transactions, non-controlling interests and financial statement display.
- Recognition and measurement principles for contingencies, including:
 - The appropriate recognition threshold for contingent assets and liabilities and incorporating the uncertainty over whether cash will be realized or paid into the measurement.





- o Marking to fair value certain types of contingencies and contingent consideration through earnings, post-acquisition.
- R&D activities and projects can be incurred, procured or acquired in various
 ways such as via internal R&D activities, through contracting activities, via
 licenses, as part of asset purchases or via business combinations. These activities
 or projects should be accounted for in similar ways, regardless of how they were
 acquired.

As we indicated in our letters dated March 21 2005, and November 7 2005, the Committee strongly disagrees with the conclusions reached on the above topics in the EDs. We continue to believe that the implications of these proposals on the future shape of the financial reporting model are both profound and far-reaching, representing a fundamental shift in the overall direction of accounting and financial reporting standards. We do not believe a case has been made that

such changes are responsive to financial statement user needs, that the proposed accounting is capable of being understood and consistently applied by preparers, or that there is broad-based support for the changes amongst the FASB's constituent base.

The parent vs. economic unit view has been deliberated and not accepted on a number of occasions by the Board. We are not aware of any more recent developments or data that would support a different conclusion at this point. In addition, re-measurement of contingent assets, liabilities and contingent consideration in earnings is not accommodated by our present reporting model for the statement of earnings. As noted above, it does not seem useful to impute to the performance of the acquiring company management the ultimate resolution of a potential pre-acquisition claim, nor does it seem useful to record contingent assets that are not probable of being realized, only to have significant subsequent impairment charges. Similarly, the resolution of contingent consideration at an amount that is higher or lower than the estimate recorded on the acquisition date is not a reflection of management performance. In our view, reflecting these types of phenomena in earnings doesn't seem reasonable or consistent with





current investors' approach to analyzing the statement of earnings or a company's ongoing performance. We believe constituents would be better served by the Board addressing these issues in its project on performance reporting before requiring this accounting on a piecemeal basis for business combinations.

Another foundational issue that we believe should be addressed at the conceptual level, rather than via the business combinations project is the accounting for R&D, specifically as it relates to the proposed capitalization of acquired IPR&D. R&D activities and projects can be incurred, procured or acquired in various ways such as via internal R&D activities, through contracting activities, via licenses, as part of asset purchases or via business combinations. We believe that, at the conceptual level, these activities or projects should be accounted for in similar ways, regardless of how they were acquired.

In light of the strong views the ED has elicited on these concepts by a large portion of the Board's constituents, and the amount of time that has already elapsed on EDs, we believe it would be inappropriate to proceed with the current scope of the EDs before, at a minimum, completing the Conceptual Framework project.

If the proposed EDs are issued as final standards, extension of these principles to similar circumstances that occur outside of a business combination is inevitable. Equally important, we envision it would be difficult to undo the effects of these standards if they are inconsistent with the ultimate conceptual framework. Given that the parent company vs. economic entity view, minority interest, and many of the related issues have been on the Board's agenda since 1982, we believe the Board could wait a bit longer to engage the financial community more on concepts discussed in this letter.

We believe it would be far better if these elements were removed from the scope of the EDs so that the Conceptual Framework project could be given the first priority as the Boards explore and define the relationship of these principles to the broader reporting





model. In so doing, the Boards will have the opportunity to think through the full implications of the principles of the model on financial reporting and will have obtained and debated constituent views on what that new model will look like when carried to its logical conclusion.

At the same time, we believe a project that is more narrowly focused on pure convergence of existing FASB and IASB standards would be more manageable and stand a greater probability of reaching consensus in the near term. We believe the following issues from the EDs are representative of those that could be addressed in a more limited scope project:

- The appropriateness of using "marketplace participants" approach to determine fair value of acquired non-financial assets and liabilities, including the use of entry versus exit value
- Accounting for transaction costs
- Accounting for exit activities of the acquired entity (both restructuring activities and assets held for sale)
- Appropriate measurement date for exchange consideration

Irrespective of whether or not the Board decides to revise the scope of the EDs, we believe the EDs should have a robust fatal flaw review.

Given these factors, we believe it would be appropriate to formally re-engage the financial reporting community through a robust fatal flaw review to insure a complete and timely debate on the underlying issues. This could only serve to help ensure a high quality final standard with minimal implementation issues.





We will be pleased to meet with the Board and Staff at its earliest convenience to discuss these issues in more depth and to clarify any comments contained herein.

Sincerely,

Pascal Desroches

Chair, Financial Reporting Committee Institute of Management Accountants