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A·C·L·I AMERICAN COUNCIL OF LIFE INSURERS
FINANCIAL SECURITY FOR LIFE

Letter of Comment No: 30
File Reference: 1205-001

October 28, 2005

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

Re: File Reference 1205-001

Dear Mr. Herz:

The American Council of Life Insurers (ACLI) would like to offer our comments on the Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries - a replacement of ARB No. 51 Exposure Draft (ED). ACLI is the principal trade association of life insurance companies, representing 356 member companies that account for 80 percent of total assets, 78 percent of the life insurance premiums and 84 percent of annuity considerations, in the United States.

The ACLI believes that the current model of accounting for noncontrolling interests is adequate and properly reflects the economics underlying the entities. Given the desire to remove the mezzanine treatment of the noncontrolling interest liability by the FASB, we believe that treatment of the amount as a liability is better aligned with the economics of the transaction and consistent with how financial statement users view the balance sheet today. We concur with the FASB's suggestion that the liability does not represent a liability as defined in FASB Concept Statement No. 6. We also believe, though, that noncontrolling interests do not fit within the definition of equity. We do not agree with the Board's conclusion that noncontrolling interests own a residual interest in a component of consolidated equity. We believe that this view of equity is a departure from the view of users of financial statements including regulatory agencies and stockholders. We further believe that this disconnect has a high likelihood of misleading users of our financial statements. For this reason, we believe that the treatment of noncontrolling interests as a liability will provide a workable model for financial statement users and is the best alternative of the three deliberated by the Board (equity vs. liability vs. mezzanine). We recommend that the FASB keep the current guidance contained in ARB No. 51 and require the non-controlling interest balance be reclassified as a liability in the financial statements.

In response to specific questions raised in the ED, we offer the following comments:

Question 2 – Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders' equity?

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We do not agree with the proposed requirement to include the noncontrolling interests as equity. We believe that presenting noncontrolling interests as a component of equity artificially inflates a company's equity potentially skewing financial ratios and performance ratios. For this reason, we believe that most users will look to exclude these balances when analyzing a company's financial condition and operating performance. This calls into question the usefulness of this proposed change. If the proposed guidance for including noncontrolling interest were retained, then we would support the reporting of the balance in a separate line within the equity section to provide users the ability to identify it on the face of the balance sheet and exclude if they so desire.

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?

We do not support including noncontrolling net income in the income statement due to the confusion that it would create with users leading to further use of non-financial measures. The additional lines in the income statement for income from continuing operations including noncontrolling interest and income from continuing operations excluding noncontrolling interest add unneeded complexity to the face of the income statement. Sophisticated users of the financial statements will want to back it out to more accurately reflect the profits and losses of the business, while unsophisticated users will be confused about which income statement line represents actual income attributable to their equity interest in the company. We believe that disclosure could be used to address the needs of sophisticated users to see income from continuing operations including noncontrolling interest. We also do not support taking noncontrolling interests below zero as it creates an accounting result that is not supported by the underlying economics of the entity. We concur with the Board's assertion that while noncontrolling interest holders have no obligation to fund the losses of the business, the majority holder does not, in many instances, have an obligation either. We believe that an improved model other than the one proposed in the proposed guidance, or that of APB No. 51, would be to limit the losses of the majority and minority holder to zero if neither have an obligation to fund those losses. With the adoption of FIN 46(R), companies increasingly need to consolidate non-recourse entities that they have no legal requirement or business requirement to fund in the event losses result in a negative value. For example, many insurance companies participate in investment leveraged real estate transactions through a limited liability partnership. This structure was established this way for the exact purpose of not requiring the company to incur the losses of the investment beyond its cost.

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?

We disagree with the proposed guidance. We believe that acquisition of additional interests through either purchases or expiration of minority rights should be accounted for as purchases with a stepped-up basis of the subsidiary's assets and liabilities and an addition to goodwill if required. We believe that dispositions of interests through sales or through issuance of additional shares of the subsidiary's stock should be treated as sales with a gain or loss reflected. We support the retention of the existing accounting treatment for changes in ownership interest.

Question 5 – Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period?

We disagree with the concept that the loss of control of an entity should require a remeasurement event. The income and equity impact of applying both the equity method of accounting and consolidating a controlled entity is the same. It appears counter-intuitive to us that an event that requires an entity to switch from consolidation to the equity method of accounting would result in the realization of a gain or loss on the retained investment. We believe that the investment should be retained at carrying value and any gain or loss on a sale of the partial interest disposed of would be recorded but limited only to the portion of interest sold.

Questions 8 -12 – Disclosures

The significant disclosure requirements of the ED will be time-consuming and add little value to financial statement users. The presentation changes proposed will create overly complex financial statements that will be challenging for users to interpret and understand.

Thank you for this opportunity to express our concerns on this developing accounting guidance. Should you have any questions or wish to discuss our concerns in greater detail, please feel free to contact us.

Sincerely,

James F. Renz

James F. Renz
Director, Accounting Policy