

Letter of Comment No: 15
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October 28, 2005

Mr. Lawrence Smith, CPA
Director, Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: June 30, 2005 Exposure Draft (ED) of a Proposed Statement of Financial Accounting Standards (SFAS), Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries (a replacement of ARB No. 51)

Dear Mr. Smith:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the "single economic entity" theory of consolidated financial statements and the concept that noncontrolling shareholders hold residual interests in a component of the consolidated entity. This concept seems consistent with the tandem project Applying the Acquisition Method resulting in proposed SFAS 141(R), Business Combinations (a replacement of FASB Statement No. 141).

As a residual interest, the noncontrolling interest does not meet the current definitions of a liability or those contemplated in other current FASB projects, and mezzanine classification is not consistent with the current concepts in the Liabilities and Equity project. In general, mezzanine presentation can be confusing to users. For these reasons, TIC believes that noncontrolling interests should be presented in the consolidated statement of financial position





within equity and separately from the parent shareholders' equity to best serve the needs of financial statement users, including the controlling shareholders of the parent company.

TIC appreciates the comprehensive example in Appendix A, which was helpful in understanding how to apply the various provisions of the Standard, especially the extensive disclosure requirements.

SPECIFIC COMMENTS

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?

Yes. This information helps users understand important operating attributes of the controlling and noncontrolling interests, which is important as the controlling interests constituency would be the expected primary users of the consolidated financial statements.

However, with respect to attributing losses to noncontrolling interests in excess of the investment balance (i.e., creating a "negative" investment balance), we are concerned about how to interpret this requirement in certain specific circumstances and about potential results that might not reflect the substance of the relationship between controlling and noncontrolling interests. One example is when consolidation of a variable interest entity is required under FASB Interpretation 46(R) (FIN46R), Consolidation of Variable Interest Entities, but another party may be the party expected to absorb the losses. This issue is highlighted in paragraph B19, and we encourage the Board to address this matter as soon as possible. We believe this issue will occur with relative frequency as FIN46R is implemented.

TIC also believes further guidance is necessary to clarify the definition of "noncontrolling interest" when less than 50% of the equity interests in a subsidiary are held by "persons" related to the parent who are not affiliates (as defined in the ED). In TIC's view, subsidiary owners could be related to the parent without being part of the controlling interests. Adding this clarification to the final standard would be helpful guidance for our constituency.

Question 12—Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?

Yes, this information would be meaningful, given the significance of the inherent change in the characteristics of the investment. However, we believe that guidance should be provided about where this amount should be presented within the income statement.





TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen M. McEachern, Chair PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees

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