Letter of Comment No: 111 File Reference: 1204-001

October 26, 2005

Via Email: director@fasb.org

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

File Reference No. 1204-001

Re: Exposure Draft – Proposed Statement of Financial Accounting Standards – Business Combinations (a replacement of FASB Statement No. 141)

## Dear Director:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed the above referenced Exposure Draft (ED). The Committee has the following comments, which specifically address the nineteen questions raised in this exposure draft.

Question 1: Are the objectives and the definition of a business combination appropriate for accounting for all business combinations?

The Committee concurs with the proposed objectives and definition of a business combination addressed in this exposure draft.

Question 2: Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business?

The Committee concludes that the definition of a business and the additional guidance for determining whether the assets acquired and liabilities assumed in a business combination constitute a business is appropriate and sufficient.

Question 3: In a business combination in which the acquirer holds less that 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the non-controlling interest?

The Committee concurs with the proposed guidance addressed in the question.

Question 4: Do paragraphs A8-A26 provide sufficient guidance for measuring the fair value of an acquiree?

The Committee concurs with the proposed guidance associated with this question.

Question 5: Is the acquisitions-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest?

The Committee concurs with the proposed guidance associated with this question.

Question 6: Is the accounting for contingent consideration after the acquisition date appropriate?

The Committee concurs with the proposed guidance associated with this question.

Question 7: Do you agree that the costs that the acquiree incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree?

The Committee agrees with the proposed guidance associated with this question.

Question 8: Do you believe that these proposed changes to the accounting for business combinations are appropriate?

The Committee agrees that the proposed guidance associated with this question is appropriate.

Question 9: Do you believe that these exceptions to the fair value measurement principle are appropriate?

The Committee agrees that the proposed guidance associated with this question is appropriate.

Question 10: Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree?

The Committee ultimately agrees with the proposed guidance associated with this question. However, there was considerable discussion among the committee members associated with the following concerns:

- 1.) The potential for manipulation of earnings through intentionally contrived changes in control of a subsidiary simply for the purpose of generating gains or losses.
- 2.) Additional costs associated with the requirement for valuation of a subsidiary at any point in which control of a subsidiary is obtained or lost.

Ultimately, the committee agrees with the proposed guidance under the premise of implementing fair value basis for business combinations. The committee concludes that any gain or loss recognized as a result of a change in control should be presented on the income statement after income or loss from operations as a separate component of "DEC" items. The committee believes that such presentation is necessary to highlight such activities.

Question 11: Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest?

The Committee concurs with the proposed guidance associated with this question.

Question 12: Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date?

The Committee concluded that it is not possible to reliably measure an overpayment at the acquisition date.

Question 13: Do you agree that comparative information for the prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments?

The Committee concurs with the proposed guidance associated with this question.

Question 14: Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree?

The Committee concurs with the proposed guidance associated with this question.

Question 15: Do you agree with the disclosure objectives and the minimum disclosure requirements?

The Committee concurs with the proposed guidance associated with this question.

Question 16: Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and

has both of the following characteristics: a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability, and b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

The Committee concluded that an intangible asset that is identifiable can always be measured with sufficient reliability and can be recognized separately from goodwill In addition, the Committee was unable to identify examples of an intangible asset that arises from legal or contractual rights and has both of the characteristics noted in the question.

Question 17: Do you agree that any changes in acquirer's deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination?

The Committee concurs with the proposed guidance associated with this question.

Question 18: Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences?

The Committee does not agree with the proposed guidance associated with this question as it concludes that the disclosure requirements should be consistent between the IASB and the FASB.

Question 19: Do you find stating the principles in bold type helpful?

The Committee concluded that stating the principles in bold type were helpful in its analysis of the exposure draft.

In conclusion, the Committee appreciates the opportunity to share our views and concerns. Members of the Committee are available to discuss any questions that you may have regarding this communication.

Sincerely,

## Richard G. Edsall

Richard G. Edsall, CPA, Chair FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:

Joel S. Baum, CPA David E. McClellan, CPA