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director@fasb.org

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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Reference No. 1204-001 – Proposed Statement of Financial Accounting Standards, Business Combinations – a replacement of FASB Statement No. 141

Dear Ms. Bielstein:

Affiliated Managers Group, Inc. ("AMG") appreciates the opportunity to comment on the FASB's exposure draft of a Proposed Statement of Financial Accounting Standards, *Business Combinations – a replacement of FASB Statement No. 141* (the "Exposure Draft" or the "Proposed Standard").

We support the efforts of the FASB and IASB to improve financial reporting while promoting the convergence of accounting standards. We are highly supportive of standards that both increase the comparability of financial statements and use additional footnote disclosure to promote transparency. We agree with the Boards' views that applying a single method of accounting to all business combinations will result in more comparable and transparent financial information; however, if the Proposed Standard is adopted in its current form, we believe that financial information will be less comparable and lack the transparency that the Proposed Standard is attempting to achieve.

In order to achieve the project's stated goals, we believe that there are several matters that should be reconsidered in order to improve the existing proposal. The most notable of these matters is the impact that the Proposed Standard will have on the stockholders' equity of companies that acquire majority interests in businesses and subsequently acquire additional interests. Our key comments on the Exposure Draft, including our proposed alternatives, are discussed below.

We hope that our comments will assist the Boards in identifying potential alternatives to the issues raised.

Affiliated Mangers Group, Inc.
Responses to Notice for Recipients

Measuring the Fair Value of the Acquiree

Question 3—In a business combination in which the acquirer holds less than 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 noncontrolling interest? If not, what alternative do you propose and why?

We support the view that it is appropriate to recognize one hundred percent of the acquisition-date fair value of the acquiree, including one hundred percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest. However, the Proposed Standard does not provide a transition approach that will result in financial statements being presented on a comparable basis. For companies that acquire controlling interests in businesses, there will be a permanent difference in the method of accounting for acquisitions completed before and after January 1, 2007. This difference will make comparability of financial statements difficult for financial statement users.

For example, assume that Company A acquires 80 percent of the equity interests of a business prior to the adoption of the Proposed Standard (the Initial Acquisition). The remaining 20 percent continues to be held by then-existing equity holders. On March 31, 2007, Company A purchases an additional 10 percent from the noncontrolling interest. This would currently be accounted for as a "step acquisition" with goodwill, and any tangible and intangible assets, being recorded for the additional 10 percent of the business acquired. Under the Proposed Standard, this transaction would be reported as an equity transaction. The noncontrolling interest would be removed from the balance sheet at its historical carrying value, which excludes the unrecognized goodwill and intangible assets attributable to the noncontrolling interest. The difference between carrying value and the cash paid to acquire the interest would reduce Company A's additional paid-in capital. Conversely, if the Initial Acquisition were to occur after the adoption of the Proposed Standard, the reduction of the controlling interest's additional paid-in capital would be limited to the change in the fair value of the noncontrolling interest from the date of the Initial Acquisition.

Because the full goodwill method will never be applied to the Initial Acquisition, over time the Proposed Standard could significantly and artificially reduce the total additional paid-in capital of Company A. While we understand that the transition provisions were selected to make application of the Proposed Standard less onerous for financial statement preparers, the lack of appropriate (or alternative) transition provisions will lead to a permanent difference in the basis of accounting for acquisitions. This will make the financial position of entities with similar characteristics look remarkably different based only upon whether the business combination was consummated before or after the adoption of the Proposed Standard. If the final standard does require application of the method described in the

Exposure Draft (i.e. the full goodwill method) to transactions between controlling and noncontrolling interests, we propose the following transition alternatives that aim to achieve the ultimate comparability of financial statements.

Alternative A

Business combinations that are consummated after the adoption of the Proposed Standard would be accounted for using the method described in the Exposure Draft (i.e. full goodwill method). Business combinations that were consummated before the adoption of the Proposed Standard would be grandfathered. The acquisition of additional interests by the controlling interest from the noncontrolling interest would continue to be accounted for as "step acquisitions" until such time as the controlling interest owned all or substantially all of the business. The threshold for "substantially all" of the business could be based on the facts and circumstances in each case or the Board could define this threshold as a fixed percentage, for example ninety-five percent of the underlying equity interests. When this threshold was met, the final step up would occur and the process of converging to the full goodwill method would be complete. This transition method would provide for the convergence to the full goodwill method over time, albeit a potentially lengthy period of time, and it would avoid the artificial reduction to equity that would likely result from future transactions with noncontrolling interests.

Alternative B

Business combinations that are consummated after the adoption of the Proposed Standard would be accounted for using the method described in the Exposure Draft (i.e. full goodwill method). The acquisition of additional interests by the controlling interest from the noncontrolling interest in the post adoption period would constitute a "triggering event" that would require the recognition of the goodwill, intangible assets and tangible net assets attributable to the entire remaining noncontrolling interest. This final step up would effectively transition the business to the full goodwill method at a time when the fair value of the business was more readily determinable because of the current transaction between the controlling and noncontrolling interests. This transition method would provide for the convergence to the full goodwill method immediately upon the consummation of a transaction between the controlling and noncontrolling interests, and it would avoid the artificial reduction to equity that would likely result from future transactions with noncontrolling interests.

The Board has acknowledged that the transition provisions of the Proposed Standard diminish some benefits of improved reporting provided by the Proposed Standard. We support Alternative A as the preferred transition method.

Question 5—Is the acquisition-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? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

In certain instances, the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree may not be the best evidence of the fair value of the business acquired. Numerous factors can impact the market value of the acquirer's equity interests between the announcement of a transaction and its completion that are unrelated to the current fair value of the entity being acquired. For example, days before a transaction is completed, an unrelated operating segment of the entity issuing equity interests could announce poor quarterly financial performance which, in turn, would result in a decrease in the fair value of the equity interests issued to acquire the business. The value of the equity issued, in this case, would be considerably less than it was during the days before and after the announcement. In this case, using the value of the acquiring entity's equity interests on the closing date of the transaction would yield a lower valuation of the business and would not provide an accurate fair value of the business acquired.

<u>Alternative</u>

In this case, aside from an independent valuation of the business to be acquired, the guidance outlined in Emerging Issues Task Force Issue 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination,* provides the most accurate mechanism for determining the fair value of the business acquired by, generally, valuing the acquired business on the announcement date.

Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

The Proposed Standard stipulates that contingent consideration issued in a business combination will need to be recognized at fair value. However, contingent purchase price arrangements are generally negotiated when the fair value of the acquired interest is not readily determinable at the transaction date (i.e., the buyer and the seller do not agree on a reasonable range of expected cash flows of the business to be acquired). This makes the measurement of the fair value of the contingency under any valuation methodology extremely difficult to reasonably estimate, which in turn reduces the reliability of financial statements.

We believe that the perceived benefits that would result from recognizing contingent consideration initially at fair value with subsequent changes recognized in income would be more than offset by the lack of reliability that would result from the inability to accurately and consistently measure the fair value of these types of arrangements.

Alternative

The current practice of accounting for contingent consideration arrangements should remain unchanged, or at a minimum the Proposed Standard should allow for changes in the fair value of a contingent consideration arrangement to be accounted for as a component of the fair value of the business acquired for a reasonable period of time, for example, one year from the year-end in which the acquisition occurred.

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

We agree that acquisition-related costs should not be considered for the purposes of measuring the fair value of the business acquired. A case can be made, however, that these costs have properties akin to intangible assets acquired (not in a business combination) in that the benefits from these costs are realized over a period of time. If one agrees with this view, expensing these costs as incurred does not accurately reflect the expense in the period where the benefit has been realized.

We do not agree with the Boards' decision to allow mixed practices of accounting for acquisition-related and issue costs until the project on liabilities and equity resolves these issues broadly. We believe that if the practice of accounting for these similar types of costs is to be changed that practice should be changed for all such costs concurrently.

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We appreciate the opportunity to comment on the Exposure Draft, as well as the opportunities to share our views with you during last year's field visit and yesterday's roundtable discussion. If you should have any questions concerning our comments or our proposed alternatives, we would be happy to participate in discussions with the FASB staff, Board members or, if desired, we would also be pleased to meet. Please feel free to contact me at (617) 747-3308 at any time.

Sincerely yours,

Darrell W. Crate

Darrell W. Crate
Executive Vice President and
Chief Financial Officer

cc: Daniel J. Shea, Affiliated Managers Group, Inc.
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