Letter of Comment No: 104
File Reference: 1204-001

Ford Motor Company

Accounting Director
Patricia Little
Dearborn, MI 48121

October 28, 2005

Mr. Lawrence W. Smith
Director of Technical Application and Implementation
Financial accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Reference No. 1204-001

Dear Mr. Smith:

We appreciate an opportunity to provide comments on the Financial Accounting Standards Board's Exposure Draft, on Business Combinations, a replacement of FASB Statement No. 141. Developing a statement that improves financial reporting consistency and transparency while maintaining an accurate representation of the economic value of the acquired entity would be helpful for both the users as well as preparers of financial statements.

The convergence efforts between the FASB and the IASB to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and cross border financial reporting is commendable. This merits particular mention in view of proposed reporting requirements under the IFRS. Developing a consistent standard will enhance comparability and provide transparency to both the users and preparers of the financial statements

We agree with the conceptual thought behind recording the acquisition at its current fair value since we believe that a mixture of historical and current values co-existing in a single asset or liability makes financial statements less understandable and less useful, thus preventing the financial statements from faithfully representing the realities of the acquisition. Continuing on the same note, we are concerned that the new Statement will lead to disparity in the accounting treatment of similar assets acquired by different means, e.g., in-process research and development will continue to be expensed if it is internally generated but will be classified as an intangible asset if it is acquired in a business combination. Please see our response to Question 8.

Any change in the reporting of assets and liabilities in the financial statements, specifically due to an adoption of a new standard will undoubtedly require additional disclosures. The requirement that comparative information for periods presented in the financial statements should be adjusted for the effects of measurement period adjustments would significantly increase the compliance time and provide little value to the users of the financial statements. Please refer to our responses to Question 13 and Question 17.

The opportunity to provide comments as the Board deliberates this extremely important issue is appreciated. Due to the complexity and the length of the exposure draft we have limited our comments to a few select questions. They are provided in support of the Board's efforts to improve financial reporting in this area. If you have questions regarding the comments please contact me at (313) 845-9255.

Sincerely,

/s/

Patricia A. Little
Accounting Director
Ford Motor Company

Responses to Specific Questions

Scope

Question 1: Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

We agree that the objective and definition of a business combination, as described in paragraphs 52-58 are appropriate.

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? If not, how would you propose to modify or clarify the definition or additional guidance?

We agree with the new definition of a business. It recognizes that the business characteristics vary by industry and are dependent upon the structure of an entity's operations/activities, including the entity's stage of development. We believe this will lead to ease in practical implementation of identifying businesses.

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 agree that recognizing 100 percent of the fair value of the acquiree is appropriate. We believe that this is crucial in erasing anomalies which were created when only the incremental ownership acquired was fair valued and the minority interest was reflected at its carryover basis.

Question 4: Do paragraphs A8-A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We agree conceptually that the acquired assets and liabilities should be represented on the acquirer's consolidated financials at their current fair values.

We also believe that the requirements for measuring the fair value of an acquiree will significantly increase the level of sophisticated valuations needed. In contrast, we do not believe that a corresponding increase in user value is evident especially given the fundamental lack of precision inherent in valuing many types of assets and liabilities. (See our answer to Question 8 regarding in-process R&D and contingencies.) We propose that the Board acknowledge the appropriateness of simpler valuation models, including in-house models for acquisitions which are under a certain materiality threshold.

For example, Ford Motor Company will be acquiring approximately 35 dealerships this year, the purchase price of which will range from $3 million to $6 million, with vehicle inventory being the most significant asset on their balance sheets. These acquisitions, when compared to our balance sheet, which has $268 billion in assets, are immaterial. Under these circumstances, a valuation using an in-house model should be appropriate.

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?

We believe that in situations where a business combination is effected by a transfer of equity securities, measuring the fair value on a single date (the acquisition date) will ignore the volatility caused by the acquisition. We also believe that this will lead to the recorded amounts not faithfully representing their current fair values. We propose maintaining the current practice of measuring the fair value over a period of time (e.g. an average of 3-4 days), before and after the acquisition date.

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

We believe that the proposed accounting for contingent consideration after the acquisition date is appropriate.

Question 7: Do you agree that 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 costs incurred by the acquirer in connection with a business combination are not assets and should be expensed.

Measuring and Recognizing the Assets Acquired and the Liabilities Assumed

Question 8: Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, what changes do you believe are inappropriate, why, and what alternatives do you propose?

We would like to comment specifically on the proposed accounting for research and development assets and contingencies, acquired in a business combination. Current GAAP requires that in-process research and development be written off. Under the exposure draft, we would be required to measure and recognize the research and development assets at fair value as an intangible asset apart from goodwill. While we support the FASB's effort to create one international standard, further fragmenting the literature on this issue should be avoided. We conceptually disagree with the notion that research and development acquired under different circumstances will be subject to different accounting results. We believe that current practice of expensing in-process research and development assets acquired in a business combination should be maintained, which is consistent with the treatment of acquiring research and development through any other means. Additionally, we believe there is a fundamental lack of precision in measuring in-process R&D due to its nature.

Contingencies: Since no reference market exists for non-financial instruments, assigning fair values to contingencies is creating "artificial constructs that lack representational faithfulness with actual economic phenomena" (ref. paragraph B207). We would recommend retaining current guidance, but lowering the recognition criteria from a "probable" threshold in FAS 5, "Accounting for Contingencies," to a "reasonably probable" threshold.

Question 9-12: No comments provided.

Measurement Period

Question 13: Do you agree that comparative information for periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

We disagree with the requirement that the comparative information for periods presented in the financial statements should be adjusted for the effects of measurement period adjustments. We believe that this restatement will not significantly increase user value, but *will* result in a significant increase to the preparation time for such financial statements. We believe that this information will serve best if dealt with in a footnote.

Question 14-16: No comments provided.

The IASB's and the FASB's Convergence Decisions

Question 17: Do you agree that any changes in the 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? If not, why?

We agree with the Board's conclusion regarding the changes specified in paragraph 44-46 of the exposure draft. However, we believe that subsequent changes in valuation-allowance-related acquisition-date tax benefits to be indistinguishable from other valuation allowances changes, and therefore, do not merit or require incremental disclosure (ref D-17(h)).

Questions 18-19: No comments provided.