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October 12, 2005

Ms. Suzanne O. Bielestein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
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Norwalk, CT 06856-5116


Dear Ms. Bielestein,

We appreciate the opportunity to comment on the Board's Exposure Draft (the "ED") of the Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51. We are students of the Master of Professional Accountancy Program at the Indiana University Kelley School of Business in Indianapolis, Indiana. As professionals in the industry, we are keenly interested in the proposed statement, which we may need to comply with when it becomes effective.

We believe the central issue to be addressed in our comment letter is whether consolidated statements should present information of the parent company or the economic entity, which in itself does not have to preclude placing more emphasis on the information related to the parent company by displaying separately information corresponding to the controlling and the noncontrolling interests.

Paragraph 40 of Accounting Principle Board Statement No. 4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, defines the function of accounting as follows: "to provide quantitative information, primarily financial in nature, about economic entities (underline added) that is intended to be useful in making economic decisions - in making reasoned choices among alternative courses of action." According to paragraph 1 of Accounting Research Bulletin (ARB) No. 51, as amended by Statement of Financial Accounting Standards (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries, the purpose of consolidation is "to present information of a parent and its subsidiaries essentially as if the group were a single company." (underline added) although for the primary benefit of the parent company's shareholders and creditors. We, thus, believe that consolidated financial statements should present information of a single economic entity, while clearly separating information corresponding to the controlling and the noncontrolling interests. Our belief is generally in agreement with that of the Board.

Following the economic unit concept in the United States, the information provided in consolidated financial statements would also be more comparable across international borders because International Accounting Standard (IAS) 27, Consolidated and Separate Financial Statements, describes consolidated
financial statements as "the financial statements of a group presented as those of a single economic entity" (underline added) in paragraph 4.

Our comments on the specific questions identified in the "Notice to Recipients" section of the ED are presented below.

**Question 1**—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?

**Response:** Yes. We agree that the noncontrolling interest is part of the equity of the consolidated entity.

Because we support the economic unit concept, we agree with the Board's argument in paragraph B14 of the ED that the noncontrolling interest should be classified as equity because holders thereof are owners of a residual interest in an economic entity. Paragraph 234 of Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, explicitly states that "[m]inority interests in net assets of consolidated subsidiaries do not represent present obligations of the enterprise to pay cash or distribute other assets to minority stockholders. Rather, those stockholders have ownership or residual interests in components of a consolidated enterprise."

**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? If not, what alternative do you propose and why?

**Response:** Yes, We 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.

Because we agree with the Board that the noncontrolling interest is part of the equity of the consolidated entity, we also agree that the noncontrolling interest (referred to as a "minority interest" in ARB No. 51) should be presented within equity. We further agree with the Board's points in paragraphs B12 and B13 of the ED that displaying noncontrolling interests as liabilities or "mezzanine" items does not have support in the Board's conceptual framework, specifically in SFAC No. 6. Noncontrolling interests do not meet the definition of liabilities described in paragraph 35 of SFAC No. 6; therefore, there is no special element of a statement of financial position to present the interests of the noncontrolling shareholders of the parent or its subsidiaries either. The current practice of displaying noncontrolling interests as liabilities or "mezzanine" items is, in our opinion, conceptually improper.

Paragraph 111 of SFAC No. 2, *Qualitative Characteristics of Accounting Information*, indicates that "information about an enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time." Thus, required reporting of the noncontrolling interest within equity, rather than as a liability or as a "mezzanine" item, would provide information presented in consolidated financial statements not only consistent with the Board's conceptual framework but also more comparable and, ultimately, more useful in making investing, lending, and other decisions.

We believe that reporting the noncontrolling interest separately from the parent shareholders' equity more faithfully represents the equity structure of an economic entity. SFAC No. 2, paragraph 63, describes representational faithfulness as "[an] agreement between a measure or description and the phenomenon it purports to represent." If the equity were not separated, the statement of financial position may mislead
its users by causing them to believe that because the overall equity position is strong or weak that the equity position of the controlling party, which the user may be primarily interested in, must be of the same strength or weakness. This potential misrepresentation violates the representational faithfulness of the Statement of Financial Statements.

Paragraph 33 of IAS 27 requires reporting the minority interest “in the consolidated balance sheet within equity, separately from the parent shareholders equity.” Presenting the noncontrolling interest in compliance with the proposed ED would produce information that is more comparable with international standards. We believe the benefits gained from the improved representative faithfulness, comparability, and usefulness are likely to outweigh the costs associated with reporting the equity separately.

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?

Response: Yes, we agree with the proposed requirements.

According to paragraph 216 of IAS 27, Elements of Financial Statements, the sources of comprehensive income are “significant in those attempting to use financial statements to help them with investment, credit, and similar decisions about the enterprise, especially since various sources may differ fundamentally in stability, ir. and predictability.” Net income and comprehensive income are included in comprehensive income as explained in paragraph 10 of SFAS No. 130, Reporting Comprehensive Income. Thus, separating amounts of net income or loss and the components of other comprehensive income into those attributable to controlling and noncontrolling interests would present more relevant, transparent, and useful information to the primary beneficiaries of the consolidated financial statements—shareholders and creditors of the parent (defined so in paragraph 1 of ARB No. 51, as amended by SFAS No. 94). This separate presentation of net income or loss would also be relevant to investors, creditors, and other users analyzing earnings-per-share information.

With the proposed requirement, users of financial statements could be able to compare net income and loss amounts as well as earnings-per-share information attributable to both controlling and noncontrolling interests across entities, time periods, and even international borders because paragraph 33 of IAS 27 requires separate disclosure of noncontrolling interest in the profit or loss of the consolidated group.

Question 4—Do you agree that changes in ownership interests in a subsidiary after control is obtained are to be accounted for as equity transactions? If no, what alternative do you propose and why?

Response: Yes. We 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 an equity transaction.

We agree that the noncontrolling interest in a subsidiary is part of the equity of a consolidated entity for the reasons described previously (question 1). The equity in the ownership interest and “involves a relation between an enterprise and its owner or owner when there are employees, suppliers, customers, lenders or investors” as explained in paragraph 206 of IAS 27, Elements of Financial Statements. Thus, changes in ownership interests in a subsidiary associated with increased or decreased noncontrolling interest that do not result in a loss of control should be classified as equity transactions.
**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? If not, what alternative do you propose and why?

**Response:** Yes. We agree that any gain or loss from the remeasurement of retained investment in a former subsidiary should be recognized in income of the period. The Board stresses in paragraph B33 of the ED that in the situation resulting in the remeasurement “the parent-subsidiary relationship ceases to exist and an investor-investee relationship begins.”

Accounting Principles Board Opinion (APB) No. 18, *The Equity Method of Accounting for Investments in Common Stock*, indicates in paragraph 19(f) that the total gain or loss recognized on a sale of stock of an investee should be accounted for as “the difference at the time of sale between selling price and carrying amount of the stock sold” rather than as the Board proposes in paragraph 27 of the ED, which is the difference between the following:

a. The aggregate of (1) the fair value of the proceeds, if any, from the transaction that resulted in the loss of control and (2) the fair value of any retained investment in the former subsidiary at the date control is lost.

b. The parent’s interest in the former subsidiary’s net assets at the date control is lost, which includes its’ share of the other comprehensive income of the former subsidiary.

Although APB No. 18 does not require remeasurement of the retained investments in investees, we agree with the Board’s argument in paragraph B33 of the ED that reporting the retained investments at fair value is more representationally faithful and provides users of financial statements more accurate and timely information about the value of the retained investments.

While we agree that the gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period, we do not agree with the proposed recognition of the total gain or loss associated with a loss of control. The gain or loss resulting from a loss of control consists of two components: (1) the portion associated with a reduction in ownership up to the last point where control may be maintained (e.g., 50.1%) and (2) the portion associated with a reduction in ownership below that point (e.g., 50%).

As UBS AG points out in its response to issue 8 in its comment letter to the October 2000 ED, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*, the Board requires different treatment of, in substance, the same transactions. The Board prohibits in paragraph 23 of the ED recognition of a gain or loss associated with a change in ownership if control is maintained and treats this transaction as an equity transaction. The Board, however, requires recognition of a gain or loss on the first component, described above, when the component is included in a total gain or loss resulting from a loss of control. Such different treatment of changes in ownership associated with a loss of control is internally inconsistent and conceptually improper. We, therefore, urge the Board to treat changes in ownership up to the last point where control may be maintained consistently (i.e., as equity transactions) whether the overall effect of the transaction is a loss of control or not.

**Question 6**—Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?

**Response:** Yes. We agree with the proposed guidance outlined in paragraph 29 of the ED that requires treating multiple arrangements as a single arrangement if one of the following factors is present:
a. The arrangements are entered into at the same time or as part of a continuous sequence and in contemplation of one another.
b. The arrangements form a single arrangement that achieves, or is designed to achieve, an overall commercial effect.
c. The occurrence of one arrangement is dependent on the occurrence of the other.
d. One or more of the arrangements considered on their own are not economically justified, but they are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

Compliance with this requirement should minimize the possibility of structuring sales of investment in a subsidiary so that the resulting losses would be concealed (e.g., (1) selling first part of the investment in a subsidiary up to the point where control may be maintained and (2) then selling another part that would result in the loss of control). It should be noted that such guidance may result in accounting that is inconsistent with the requirement in paragraph 23 of the IJ to not recognize a gain or loss in accounting for changes in ownership interests in a subsidiary that do not result in a loss of control.

**Question 7—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?**

**Response:** Yes. We agree that the earnings-per-share (EPS) data should be determined using only amounts attributable to the controlling interest. As mentioned previously, ARB No. 51, *Consolidated Financial Statements*, explains that consolidated financial statements are presented primarily for the shareholders and creditors of the parent. Calculating the EPS amounts as the ED requires would show a true indication of the results of operations of the parent on its own, without the help of the non-controlling interest. Such presentation should, consequently, help the shareholder, creditors, and other users in assessing financial performance of the parent.

The EPS amounts presented according to the requirement would, thus, provide useful information to users of consolidated financial statements, which is one of the objectives of financial reporting outlined in SFAC No. 1, *Objectives of Financial Reporting by Business Enterprises*.

Although we believe the EPS amount should not include net income or loss attributable to the noncontrolling interest, we do believe there should be an EPS amount based on the net income or loss from the controlling and noncontrolling interests for the benefit of users interested in the performance of the economic entity. We recommend this figure be presented in notes to consolidated financial statements to avoid unnecessary complexity on the face of the statements.

**Question 8—Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?**

**Response:** Yes. We definitely agree that the disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and amounts of each attributable to the controlling interest and noncontrolling interest should be required.

Because consolidated financial statements are primarily for the investors and creditors of the controlling party (ARB No. 51, as amended by SFAS No. 94), we agree with the Board's belief stated in paragraph B37 of the ED that "consolidated financial statements are more useful to parent company shareholders if those statements clearly identify and distinguish between controlling and noncontrolling interests and
their shares of net income and comprehensive income." The holders of the noncontrolling interest are still given an economic return through amounts attributable to the noncontrolling interest, which in turn are subject to the allocation of the identifiable assets and liabilities of the consolidated entity. However, this disclosure on a consolidated basis is not necessarily a clear indication of financial statement users. SFAC No. 2, "Qualitative Characteristics of Accounting Information," exemplifies the need for information that is relevant to the user's decision-making process. The magnitude of an omission or misstatement of accounting information may, in the light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by omission or misstatement. Therefore, we believe it is imperative that financial information be presented as well as is true and fair in the most informative manner.

As described in detail in our response to question 9, information about earnings is useful for investors, creditors, and other users of financial statements as it helps them evaluate an entity's financial performance in generating cash inflows. A fair presentation of amounts attributable to controlling and noncontrolling interests should help users better understand the benefits to these users from the information provided. In the long run, the financial statements will reflect the costs associated with the required compliance, presenting a measure of financial statement users.

**Question 9—Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If so, why?**

**Response:** Yes. We strongly agree that amounts of major income statement subsidiaries (i.e., income from continuing operations, discontinued operations, and extraordinary items) along with the components of the income attributable to the controlling (undesignated) interests should be measured by themselves, separately from those of noncontrolling interests. Such presentation would meet the requirements of the consolidated financial statements. As described in paragraph 6 of the IFRS, as well as in paragraph 1 of ARB No. 51, "Consolidated Financial Statements," as amended by SFAS No. 94, present "primarily for the benefit of shareholders and creditors of the parent," relevant information pertaining to the results of operations of a parent. Moreover, "information about an entity's performance provided by measures of earnings and its components is the primary focus of financial reporting" because "investors, creditors, and others who are concerned with assessing the proper use of enterprise net cash flows are especially interested in that information." (As stated in paragraph 6.2 of the SFAC No. 1, "Objectives of Financial Reporting by Business Enterprises.") Investors, creditors, and other users may use earnings information in many ways. The required disclosure would present information useful for investment, loan, and other decisions. Disclosure of amounts of consolidated financial statements, even if it may place an additional burden on auditors, is prepared instead.

SFAC No. 2, "Qualitative Characteristics of Accounting Information," explains completeness as "the inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena." Although the IFRS does not require disclosure of amounts of income statement subsidiaries and the components of other comprehensive income attributable to the noncontrolling (undesignated) interest, we believe these amounts should be provided, at least in the notes, to the consolidated financial statements, if these amounts are material, so that information presented in the consolidated financial statements of a single economic entity for their various users is complete. The disclosure of the amounts attributable to the noncontrolling (undesignated) interest does not have to be limited. However, in situations where these amounts are material, because requiring such disclosure, regardless of materiality, would make consolidated financial statements more comparable across entities.

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Question 10—Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?

Response: Yes. We support the Board’s conclusion that an entity with one or more partially owned subsidiaries should provide a reconciliation of the changes in the noncontrolling interest from the amount reported in equity as of the beginning of each reporting period to the amount reported at the end of each reporting period. We also agree with the requirements specified in paragraph 30(c) and illustrated in paragraph A8 of the ED to provide the reconciliation in the consolidated statement of changes in equity, if presented, otherwise in notes to consolidated financial statements, and to have the reconciliation separately disclose:

1) Net income attributable to the noncontrolling interest.
2) Investments by and distributions to the noncontrolling interest acting in their capacity as owners.
3) Each component of other comprehensive income.

According to paragraph 10 of APB No. 12, Omnibus Opinion—1967, “disclosure of changes in the separate accounts comprising stockholders’ equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative” when “both financial position and results of operations are presented.” The opinion further explains that the disclosure of such changes “may take the form of separate statements or may be made in the basic financial statements or notes thereto.” Thus, the reconciliation of the changes in the noncontrolling interest should clearly be provided as the ED states, given that we agree that the noncontrolling interest is part of the equity of the consolidated entity.

Furthermore, SFAC No. 5, Recognition and Measurement in Financial Statements of Business Enterprise, says in paragraph 55 that “statements of comprehensive income and statements of transactions with owners together include all changes in equity (net assets) recognized during a period.” SFAS No. 130, Reporting Comprehensive Income, describes the term comprehensive income in paragraph 10 as the total of all other comprehensive income and net income. Therefore, (1) net income attributable to the noncontrolling interest, (2) investments by and distributions to the noncontrolling interest acting in their capacity as owners, and (3) each component of other comprehensive income would be necessary items to include in the reconciliation of the changes in the noncontrolling interest.

We find the illustration presented in paragraph A8 of the requirements in paragraph 30(c) of the ED helpful in understanding the compliance with the requirements.

Question 11—Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

Response: Yes. We agree with the Board’s requirement to disclose a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest.

Users of consolidated financial statements, particularly investors and creditors of the parent, are especially interested in changes in equity because “equity ranks after liabilities as a claim to or interest in the assets of the [combined] enterprise” (as explained in paragraph 60 of SFAC No. 6). Knowing prior changes in equity due to transactions with the noncontrolling interest would give the users an opportunity to more accurately forecast future equity transactions, while having the current information would enable the users to confirm or correct prior forecasts. The former would add predictive value, and the latter...
would add feedback value to the information related to changes in equity, as defined in SFAC No. 2, *Qualitative Characteristics of Accounting Information*. Paragraph 51 of the same SFAC also points out that “[i]nformation can make a difference to decisions by improving decision makers’ capacities to predict or by confirming or correcting their earlier expectations.” Thus, effects of transactions with the noncontrolling interest on the equity attributable to the controlling interest are clearly relevant to the users and, therefore, should be disclosed as the proposed requirement stipulates. According to the Board minutes of the August 2003 meeting with users of financial statements regarding the issues raised in the ED, the users believe the proposed schedule would add transparency to the transactions of wealth transfer between controlling and noncontrolling equity holders. We concur.

Although the IASB decided not to require the disclosure of such a schedule, the IASB requires providing this information either in the statement of changes in equity or in the notes to the financial statements in its Exposure Draft of Proposed Amendments to IAS 27, *Consolidated and Separated Financial Statement*, which should be sufficient for international comparability of similar information. Another issue that the FASB and the IASB did not completely agree on was how the effects of any transactions with noncontrolling interests would impact EPS amounts. The FASB proposes in paragraph 30(d) of the ED requiring entities to disclose an additional per-share measure in the schedule that includes in the numerator the effects of any equity transactions with the noncontrolling interest. The IASB proposes in its Exposure Draft no requirement for such a calculation but does not preclude any entity from disclosing the added per-share metric. We agree with the FASB’s proposed requirement of the additional EPS amount because this amount would be relevant to users interested in possible effects of equity transactions with noncontrolling interests on the performance of the parent. We believe the benefits of the additional information provided in the schedule would be larger than the costs associated with the reporting and auditing this information in the long run.

We believe the illustration of the proposed requirement in paragraph A9 of the ED is helpful in understanding the proper disclosure because such a schedule has not been required before.

*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?*

*Response:* Yes. We agree that disclosure of the portion of the gain or loss related to the remeasurement of the retained investment should be presented separately from the disclosure of the total gain or loss recognized.

First, such disclosure would shed light on the sources of the total gain or loss (i.e., remeasurement of the retained investment in a subsidiary and the proceeds, if any, from the transaction resulted in the loss of control) recognized in the income statement. Information about earning is “the primary focus of financial reporting” and is useful for users of consolidated financial statements assessing financial performance of an entity, as illustrated in our response to question 9 above. Second, consolidated financial statements would be more comparable internationally because the IASB requires in paragraph BC16 of its Exposure Draft of Proposed Amendments to IAS 27, *Consolidated and Separated Financial Statements*, that “the amount of any gain or loss arising on the loss of control of a subsidiary, including the amount of any gain or loss arising on the remeasurement to fair value of any retained investment in that former subsidiary, should be disclosed.”

*Question 13—Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?*
Response: Yes. We agree with the proposed transition requirements.

We believe the board is acting prudently and fairly in its requirements for retrospective application. Paragraph 111 of SFAC No. 2, *Qualitative Characteristics of Accounting Information*, indicates that "information about an enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time." Thus, the Board recognized accordingly in paragraph B48 of the ED that retrospective application would improve comparability of information presented in consolidated financial statements across entities for some time periods. In the same paragraph, it identified certain situations in which it would be impractical to make retrospective application. For the purposes of improved comparability and usefulness of information displayed in financial statements, we fully support the proposed transition requirement.

Sincerely,

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