JPMorgan Chase & Co. (JPMC) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (FASB or the Board) Exposure Drafts, Business Combinations: a replacement of FASB Statement No. 141 (Business Combinations ED) and Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries: a replacement of ARB No. 51 (Consolidations ED), collectively, the EDs. JPMC supports the Board’s efforts to improve the financial accounting and reporting related to business combinations while promoting the international convergence of accounting standards. However, we have significant conceptual and practical issues with the EDs, and therefore do not support the proposed guidance in its current form. Our comments on key concepts and concerns are discussed below.

Recognition of Full Fair Value of Business Acquired

JPMC generally supports the Board’s overall direction to enhance the relevancy of financial information by using fair value measurements where meaningful to users of financial statements and to the extent practicable. However, JPMC does not support measuring the acquiree, as a whole, at fair value, particularly when control is obtained in a partial acquisition of a subsidiary. Although full fair value accounting at acquisition may appear attractive, JPMC does not support the proposal due to the consequences of such a decision based on both a conceptual and a practical basis.

In that regard, we do not believe it would be appropriate for the acquirer to recognize a gain as a result of a business combination if, for example, the acquirer had a preexisting interest in the acquiree. Our view is that accounting guidance that results in gain recognition in such circumstances is flawed. An exchange transaction involving the preexisting equity interest did not occur. Further, we believe that a parent’s interest is inherently different from the interest of a noncontrolling shareholder, and thus, we do not agree with the subsequent accounting that results from the Board’s proposed model. Purchases or dispositions of interests in a subsidiary are
transactions with independent third parties, resulting in increased basis in a parent company’s investment for a purchase or, in the case of a disposition, an exchange transaction for which a gain or loss should be recognized.

In addition, we do not agree that a partial sale triggering deconsolidation should trigger revaluation of the retained investment. Again, an exchange transaction involving the retained investment did not occur.

We also have concerns with the fair value requirements of this standard, particularly as they relate to certain nonfinancial instruments that fit within level 5 of the proposed fair value hierarchy that are difficult, if not impossible, to fair value. Specifically, we do not agree that contingent consideration and contingent assets and liabilities should be “fair valued” as of the date of acquisition and subject to subsequent fair value adjustments through earnings. The primary reason many contingent consideration arrangements, including earn-out agreements, exist is due to the inability of the acquirer and acquiree to agree on the fair value of a business at the time of the combination. We believe the requirement to fair value these items and mark them to market through earnings is ahead of where the Board currently is in its broader efforts on fair value. In addition, the Board’s proposed model for contingent assets and liabilities will result in two different accounting models. There would be one model for acquired contingencies in a business combination (including credit risk inherent in loan portfolios) and another for contingencies that arise in the normal course of business (i.e., a FAS 5 model where such contingencies/allowances are recorded only if probable and reasonably estimable).

Furthermore, the proposed accounting for contingent consideration and contingencies will have what may appear to be a counterintuitive effect on subsequent financial reporting. Better-than-expected results from the acquired business may increase the expected contingent payment, resulting in charges to income, while worse-than-expected results may reduce the contingent payment, resulting in income statement gains.

Finally, we believe that the EDs will result in ongoing income statement adjustments to the acquirer’s financial statements that will be unrelated to the operating performance of the combined entity. Thus, in all likelihood, we expect an increase in an entity’s use of pro forma, non-GAAP measures to help explain operating results to financial statement users.

Minority Interest

The purpose of consolidated financial statements is to convey information about the parent company to constituents. Thus, as we expressed in our May 8, 2001 comment letter on the Exposure Draft, Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both, JPMC disagrees with the Board’s decisions that noncontrolling interest (minority interest) should be classified as part of equity in the consolidated financial statements and that earnings should be presented without reduction for the portion that is properly allocated to the noncontrolling interest. Although we acknowledge that a noncontrolling interest does not meet the definition of a liability, minority interest does not represent a future obligation of surrendering an asset and/or services and does not represent permanent capital in the consolidated financial statements. Thus, we believe that the current mezzanine classification is more accurate and better understood than that proposed by the Board. The Board is proposing to fix an issue that largely does not exist in current practice. To move to an economic entity approach is to give theory precedence over commercial reality and constituent needs.

We believe that restatement provisions such as the requirement to reflect changes in estimate during the measurement period for an acquisition, the proposed transition requirements within the Consolidations ED and certain reporting requirements under both EDs are not practical, extremely burdensome, or, in some instances, not helpful in assisting investors to analyze the financial position of the company. In fact, we believe that some of the changes proposed by the FASB will increase the difficulty constituents might have in understanding the financial information. As discussed further in Attachments A and B, the changes will be costly to implement, often providing little benefit to financial statement users. In addition, we believe that if issued as currently drafted, the Consolidations ED should be applied prospectively.

Views on Specific Issues

Responses to certain of the Board’s specific questions raised in the Notice for Recipients sections of the EDs as well as additional comments on the Exposure Drafts are included in Attachments A and B.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, then please contact me at 212-270-7559 or Shannon Warren at 212-648-0906.

Very truly yours,

Joseph L. Sclafani
Attachment A

Proposed FASB, Business Combinations: a replacement of FASB Statement No. 141

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?

Objective

As discussed in our cover letter, JPMC does not support measuring the acquiree, as a whole, at fair value, particularly when control is obtained in a partial acquisition of a subsidiary. JPMC does not support the proposal due to the consequences of such a decision based on both a conceptual and a practical basis.

We do not believe it would be appropriate for the acquirer to recognize a gain as a result of a business combination if, for example, the acquirer had a preexisting interest in the acquiree. Our view is that accounting guidance that results in gain recognition in such circumstances is flawed. An exchange transaction involving the preexisting equity interest did not occur. Also, we do not agree that a gain should be recognized at the date of acquisition if the total amount of consideration exchanged is deemed to be less than full fair value (e.g., a bargain purchase option). Further, we believe that a parent’s interest is inherently different from the interest of a noncontrolling shareholder, and thus, we do not agree with the subsequent accounting that results from the Board’s proposed model. Purchases or dispositions of interests in a subsidiary are transactions with independent third parties, resulting in increased basis in a parent company’s investment for a purchase or, in the case of a disposition, an exchange transaction for which a gain or loss should be recognized.

Again, as noted in our cover letter, we are generally supportive of measuring assets acquired and liabilities assumed at fair value where meaningful to users of financial statements and to the extent practicable, but we do not believe that to be true for certain nonfinancial assets and liabilities, pre-acquisition contingencies and contingent consideration. We believe the requirement to fair value these items and mark them to market through earnings is ahead of where the Board currently is in its broader efforts on fair value.

For example, the primary reason many contingent consideration arrangements, including earn-out agreements, exist is due to the inability of the acquirer and acquiree to agree on the fair value of a business at the time of the combination. In addition, the Board’s proposed model for contingent assets and liabilities will result in two different accounting models. There would be one model for acquired contingencies in a business combination (including credit risk inherent in loan portfolios) and another for contingencies that arise in the normal course of business (i.e., a FAS 5 model where such contingencies/allowances are recorded only if probable and reasonably estimable).

Definition of a Business Combination

JPMC does not support the proposed definition of a business combination and recommends retaining the definition in paragraph 9 of SFAS 141: “A business combination occurs when an entity acquires net assets that constitute a business or acquires equity interests of one or more
other entities and obtains control over that entity or entities.” Transactions through which control is obtained through a mechanism other than an acquisition of net assets or equity interests (e.g., contract alone) should not be included in the scope of this ED. A business combination should be limited to situations where consideration has been exchanged.

**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?

**Definition of a Business**

The proposed definition of a business is too general and will result in situations where goodwill is recognized on acquisitions of net assets that do not constitute a business. The definition of a business should not refer to an integrated set of activities and assets that is capable of generating a return to investors, but rather refer to an integrated set of activities and assets that demonstrates that it is capable of generating a sustainable return to investors.

**Guidance**

We recommend incorporating the guidance and examples in EITF Issue No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*, into the revised standard and to consider whether additional examples would be helpful; particularly if the ED is issued with the definition of a business as currently drafted. Such examples should include what types of activities and assets acquired and liabilities assumed would be considered acquisitions of a business under the Statement and what types of transactions would be considered net asset purchases.

**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?

Refer to response to question 1.

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

The guidance provided is generally sufficient for measuring the fair value of an acquiree.

**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?

**Acquisition Date**

We do not agree that the fair value of certain types of consideration, transferred as of the acquisition date (i.e., the acquirer’s publicly traded equity securities) is the best evidence of fair
value of the acquirer's interest in the acquiree. Rather, we believe that current practice (as of the announcement date) is more indicative of the fair value exchanged. The stock price at the time a commitment to purchase was made is the market reference for what was negotiated when entering into an acquisition agreement. Using the date of transfer as the acquisition date could cause changes in stock market prices that are not indicative of the exchange agreed to between the parties. Often, these changes are the result of conditions that are outside the control of the acquirer/acquiree. Finally, the use of the transfer date as the acquisition date may cause changes in stock market prices that inappropriately generate negative goodwill, or may in fact artificially inflate goodwill, resulting in accounting that does not reflect the economic reality of the exchange.

Further, we do not believe that any noncontrolling equity investment in the acquiree that the acquirer owned prior to the acquisition date should be viewed as an exchange of consideration.

**Contingent Consideration**

In addition, we believe that additional consideration paid to the seller to settle disputes over fair value should be included in the purchase price, except when such an arrangement is effectively a profit-sharing arrangement or compensation to former selling shareholders. However, as noted in our cover letter, JPMC has significant concerns about the requirement to measure the fair value of contingent consideration arrangements as of the acquisition date. The primary reason many contingent consideration arrangements, including earn-out agreements, exist is due to the inability of the acquirer and acquiree to agree on the fair value of a business at the time of the combination. Contingent consideration should be recorded as an adjustment to purchase price when probable and reasonably estimable.

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

We do not agree that contingent consideration should be remeasured to fair value at each reporting date with subsequent adjustments recognized in operating earnings (other than contingent consideration deemed to be a derivative under SFAS 133). Contingent consideration ultimately paid to the seller should be reflected as part of the business combination (i.e., adjustment to purchase price, which in many instances would be an adjustment to goodwill). See our responses to question 1 and question 5.

**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 believe that acquirer costs in connection with a business combination should continue to be included in the determination as to the overall fair value of the consideration exchanged. These costs are contemplated as part of the overall economics of the business combination. The accounting should mirror the economic reality.

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

Allowance for Loan Losses

The accounting and reporting for impairment of loans with similar characteristics and credit risks should be consistent, regardless of whether the loans were originated or purchased.

The accounting specified in the ED as it relates to valuation allowances would create accounting measurement and reporting (comparability) inconsistencies and would be impractical to apply, particularly when applied to loans (especially large groups of small-balance homogeneous loans). The inconsistency results when loans with similar credit risks are measured and reported differently as a result of different measurement and reporting requirements. Loans originated by the acquirer would continue to be measured for impairment using models and formulas based on past loss rate history, recent economic events and delinquency rates and reported in the allowance for loan losses, while loans purchased from the acquiree would be measured at net fair value at the acquisition date based on anticipated cash flows incorporating future credit events and yields with no reported valuation allowance.

This inconsistency has the potential to be substantial, especially if two similar entities combine in a “merger of equals” that would cause half of the combined loan portfolio (the acquirer’s loan portfolio) to be measured and reported using existing loan accounting and the other half of the combined portfolio (the acquiree’s loan portfolio) to be measured and reported using the new proposed requirements. We believe this inconsistency would create confusion regarding loan loss estimates for financial statement users.

Furthermore, this inconsistency in the accounting and reporting of credit risk would be a significant administrative burden, since systems and procedures would need to be modified to separate and monitor the credit risk that has been embedded in the fair value of the purchased loan from other risks, such as interest-rate and liquidity risks. In addition, it would be very difficult to monitor and determine if any additional credit losses need to be recorded when certain credit events have already been taken into consideration in the fair value of a purchased loan at acquisition and such events materialize.

Requiring system modifications and new procedures to separate and monitor expected losses on purchased loans from originated loans provides no financial reporting benefit in our view. We recommend continuing the existing practice of transferring the acquiree’s allowance for loan losses because this approach addresses the comparability issue (i.e., results in the same accounting model for originated and purchased loans) while minimizing the operational complexities.

Contingencies

Consistent with our responses to questions 5 and 6 related to contingent consideration, we do not believe that the fair value of contingencies at the acquisition date provides meaningful information. Consistent with the alternative views expressed in paragraphs B206 and B208, we are concerned about the relevancy and reliability of fair value measurements for nonfinancial assets and liabilities where no objective market information exists and where there are significant uncertainties regarding the timing and method of disposal or settlement. Thus, we maintain that a value should only be attributed to contingent assets and liabilities where the value can be reliably measured and probable at the end of an allocation period.
Restructuring Charges

We believe that costs associated with restructuring or exiting activities of the acquiree should continue to be included as part of the overall fair value of the consideration exchanged. Conceptually, these costs are contemplated in connection with the bidding process between the seller and the buyer along with the internal rate of return on the overall transaction. The price to the seller would not have been offered if synergies (i.e., expected savings net of anticipated restructuring costs) had not been anticipated by the buyer. The accounting for these costs should mirror the economic reality contemplated by the buyer.

Question 9: Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

JPMC agrees with the proposed exceptions to the fair value measurement principle noted in paragraphs 42–51 in the ED. However, exceptions to the fair value measurement principle should be expanded to include contingent assets and liabilities that do not meet the SFAS 5 criteria.

The Board should further clarify what “assets held for sale” would qualify as an exception to the fair value measurement principle.

Question 10: Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

We do not believe it would ever be appropriate to recognize a gain on the remeasurement of a noncontrolling equity investment in the acquiree that the acquirer owned prior to obtaining control as of the acquisition date. Our preference would be to maintain existing practice and not increase goodwill for any gain that may be inherent in the previously acquired noncontrolling interest. If the Board continues to pursue revaluation of the previously acquired minority interest, then we would suggest reflecting the “inherent” gain on the previously acquired noncontrolling equity investment in OCI, rather than recognizing a gain in the income statement. This gain recorded in OCI would be recognized in the income statement if and when an exchange transaction with an unrelated third party occurs.

An inherent loss in the previously acquired noncontrolling interest may indicate that the noncontrolling interest may have been impaired prior to obtaining control as of the acquisition date. Loss recognition through earnings may be appropriate in this instance.

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

As a general rule, we do not believe it would ever be appropriate for the acquirer to recognize a gain as a result of a business combination – even in a bargain purchase. The only situation that we see that would give rise to a gain would be if a portion of the consideration exchanged with the seller is an appreciated asset. In that instance, an earnings process with respect to the asset exchanged has been completed.

We continue to support existing accounting practice - to reduce goodwill, then noncurrent nonfinancial assets, etc. If the Board continues to pursue this proposal, then another alternative
would be to reflect the "inherent" gain on the "bargain purchase" in OCI (consistent with our response to question 10) rather than recognizing a gain in the income statement.

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

We do not believe that such an overpayment could be measured reliably.

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

No. We understand the point that comparative financial information is more relevant to the users of the financial statements, but as a practical matter, we believe that income statement impacts related to subsequent adjustments to the fair value of the net assets acquired should be accounted for prospectively.

*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? If not, what other guidance is needed?

The guidance provided in paragraphs 69 and 70 of the ED, as well as the examples provided in Appendix A, is sufficient for determining if any portion of the consideration exchanged is not part of the business combination. We agree that only the consideration transferred and the assets acquired or liabilities assumed or incurred that are part of the exchange for the acquiree should be included in the business combination accounting.

**Disclosures**

*Question 15:* Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

JPM C does not agree with the principle in paragraph 71 that requires disclosure of the financial effect of business combinations that occur after the balance sheet date but before the financial statements are issued. Disclosure should relate only to business combinations that have occurred during the period covered by the financial statements. Current practice of subsequent event disclosure for business combinations completed after the balance sheet date but before the financial statements are issued should be retained.

For business combinations that occur during the period covered by the financial statements, JPM C generally is in agreement with the disclosure objectives of the ED, subject to the following refinements:

The reference in paragraph 72D "including a description of the factors that contributed to the recognition of goodwill" should be omitted from the final standard. Goodwill, by definition, is a residual. It would be extremely difficult to provide meaningful disclosure explaining why the goodwill was recognized.
Eliminating the requirement in paragraph 74 (a) of the ED to disclose revenue and net income of the acquiree since the acquisition date, as this information will be extremely difficult, if not impossible, to track when systems are merged after a business combination. Certain aspects of a business combination integrate shortly after the acquisition date, making it impossible to distinguish revenue and resulting net income of the acquiree from the acquirer. In addition, we do not believe that this disclosure is meaningful for financial statement users. Investors are interested in the combined entity earnings.

**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

b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

Certain identifiable intangible assets are more difficult to fair value than others. However, we believe that, generally, intangible assets can be reliably estimated and therefore recognized apart from goodwill based on the criteria outlined in SFAS 141 as well as in the proposed guidance.

**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? If not, why?

We agree that changes in the acquirer’s deferred tax benefits that become recognizable as a result of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination.

We are interpreting the guidance in the ED to carry forward the provision in SFAS 141 to continue the practice of adjusting goodwill past the allocation or measurement period for contingencies related to income tax uncertainties of an acquisition. We recommend including language similar to paragraph 40 of SFAS 141 for clarity.

We also request that the Board provide additional clarity with respect to the example in paragraph D17 (n). We are unclear as to how the deferred tax asset of $200 was calculated.
Attachment B

Proposed FASB, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries: a replacement of ARB No. 51

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?

The purpose of consolidated financial statements is to convey information about the parent company to constituents. Thus, as noted in our cover letter, JPMC disagrees with the Board’s decisions that noncontrolling interest (minority interest) should be classified as part of equity in the consolidated financial statements and that earnings should be presented without reduction for the portion that is properly allocated to the noncontrolling interest. Although we acknowledge that a noncontrolling interest does not meet the definition of a liability, minority interest does not represent a future obligation of surrendering an asset and/or services and does not represent permanent capital in the parent’s consolidated financial statements. Thus, we believe that the current mezzanine classification is more accurate and better understood than that proposed by the Board. Additionally, the proposed classification does not improve transparency, but instead will only further complicate analysis of the financial statements.

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?

As noted in our response to question 1, we do not support equity presentation for minority interest. However, if the ED is issued as currently drafted, then we do agree that minority interest should be identified apart from the parent shareholders’ equity.

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?

We agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income in proportion to the controlling and noncontrolling economic interests (absent a contractual arrangement to allocate net income or loss and other comprehensive income in a proportion other than economic interests).

However, we do not agree with the Board’s decision to allocate losses to the noncontrolling interest when such losses exceed the noncontrolling interest in the subsidiary’s equity and result in negative minority interest. As noted above, we do not believe that minority interest is part of consolidated equity, and as such, should not absorb losses beyond its investment in the subsidiary’s equity, unless the minority interest has a commitment or guaranty to fund such shortfalls. We believe a fairer presentation would be to allocate these losses to the controlling interest shareholder (even if the controlling interest is not obligated to take greater risks or assume a greater obligation than its proportionate share). The disproportional losses should be allocated to the controlling interest because there is a presumption that the controlling interest shareholder will take action to remediate or mitigate the circumstances which resulted in the losses.
**Question 4:** Do you 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 equity transactions? If not, what alternative do you propose and why?

We do not believe that purchases or dispositions of interests in a subsidiary are equity transactions, but instead are transactions with independent third parties, resulting in increased basis in a parent company’s investment for a purchase or, in the case of a disposition, an exchange transaction for which a gain or loss should be recognized.

**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?

We do not believe that a gain should be recognized on the remeasurement of a retained investment in a former subsidiary (as of the date control is lost). An exchange transaction on the retained investment has not occurred. A loss resulting from the remeasurement may be possible, however, as this situation may indicate that impairment exists on the retained investment.

If the Board continues to pursue remeasurement of a retained investment in a former subsidiary, then an alternative to gain recognition would be to record the inherent “gain” in OCI and subsequently recognize that gain upon exchange of minority interest with a third party.

**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?

We generally agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement, but ask the Board to:

Amend Paragraph 29(a) as follows: “The arrangements are entered into at the same time (or as part of a concurrent sequence) and in contemplation of one another.”

Clarify what is meant by “overall commercial effect” in Paragraph 29(b).

Also, we generally believe that more than one of the factors outlined in paragraph 29 of the ED will be met when multiple arrangements exist.

**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?

We agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interests.

**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?

As noted in the response to question 1, JPMC disagrees with the Board’s decision that a noncontrolling interest (minority interest) should be classified as part of equity in the consolidated financial statements. Thus, we do not agree with the requirement for disclosure of
the total amounts of consolidated net income and consolidated comprehensive income, and we also do not agree with the requirement for disclosing each respective amount attributable to the controlling and noncontrolling interests. The purpose of consolidated financial statements is to convey information about the parent company to constituents. Thus, these disclosures are unnecessary, costly and burdensome.

Question 9: Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

We agree that the following income statement disclosure requirements should only apply to the controlling interest:

- Income from continuing operations
- Discontinued operations
- Extraordinary items
- Cumulative effect of changes in accounting principles
- Components of other comprehensive income.

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

Consistent with our response to question 1, we do not view minority interest as equity and do not agree that a reconciliation of the changes in the noncontrolling interest from period to period be disclosed.

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.

Consistent with our response to question 4, we do not agree that entities should disclose a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest. We do not view these as equity transactions.

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?

JPMC maintains that disclosure of any gain or loss recognized on the loss of control of a subsidiary should be disclosed only if material.

Question 13: Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?

We do not agree with the retrospective application of the financial reporting guidance within the ED. Our view is that information pertaining to the controlling interest (i.e., the parent) is relevant to the user of the financial statements. If the Board continues to pursue modification to prior-year information, then we recommend the parent company reclassify noncontrolling interests on the balance sheet and provide comparative information in the footnotes, similar to the transition provisions of SFAS 142 (e.g., the effect on prior-year net income due to the non-amortization of goodwill).