November 7, 2005

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

Dear Ms. Tamulis:


Overall, the majority of AcSEC members are not supportive of the proposal to measure the acquiree, as a whole at fair value, due to the consequences of such a decision. These concerns are described in our answers to the questions in the EDs. Further, a majority of AcSEC members do not agree with the proposed changes in the consolidation model. AcSEC is supportive of the FASB’s overall direction to improve the relevance of financial information by utilizing fair value measurements to the extent practicable. In that regard, however, there are several areas where we question the ability of preparers to reliably estimate fair value and the relevance of such estimates.

We would also note that a significant minority of AcSEC were supportive of the proposed model to measure the acquiree, as a whole, at fair value and were also supportive of the proposed consolidation model.

A more complete response to the Board’s specific questions as well as additional comments on the Exposure Drafts are included in the attached. Our responses have been drafted based on the majority view described above. We have not included the minority view on the individual questions. Representatives of AcSEC are available to discuss our comments with the Board members and staff.

Sincerely,

Ben Neuhausen, Chair  
Jan Hauser, Chair  
Accounting Standards  
Business Combinations  
Executive Committee  
Task Force
Appendix B

RESPONSES TO SPECIFIC ISSUES:

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?

AcSEC disagrees with the Board’s decision to treat the noncontrolling interest (minority interest) as part of the equity of the consolidated entity. AcSEC acknowledges that the noncontrolling interests do not meet the definition of a liability under FASB Concepts Statement No. 6, but also believes that they do not meet the definition of equity because noncontrolling interests do not have an ownership interest in the consolidated entity. AcSEC believes the consolidated financial statements are prepared primarily for the benefit of the parent company stakeholders and, accordingly, believes that the consolidated equity should reflect the parent’s equity. AcSEC supports classifying the noncontrolling interest on a separate line item on the balance sheet of the consolidated entity between liabilities and shareholders’ equity. AcSEC also believes that the FASB should determine what is the most appropriate classification for the noncontrolling interest after readdressing the conceptual framework.

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?

If the FASB were to continue supporting their consolidation model after completing its deliberations, AcSEC would 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. AcSEC believes it is important to users of the financial statements to clearly identify the interests of the various residual stakeholders, including the noncontrolling interests.

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?
AcSEC generally agrees with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests.

However, AcSEC does 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 a negative noncontrolling interest. AcSEC believes that the noncontrolling interest is not a part of consolidated equity and should not absorb losses beyond its interest in the subsidiary’s equity. Additionally, AcSEC believes it is more representationally faithful to allocate such losses to the controlling shareholder.

**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?

AcSEC does not believe that the purchase of an additional interest in a consolidated subsidiary is an equity transaction; AcSEC believes this is a purchase transaction that should be reflected as part of the parent’s investment in the subsidiary. Likewise, AcSEC does not believe that the sale of a portion of a parent’s interest in a subsidiary with independent third parties is an equity transaction; it is 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?

AcSEC does not believe that a gain or loss should be recognized on the remeasurement of a retained investment. AcSEC believes that remeasurement of a pre-existing interest is a new basis issue that should be addressed in that context. Accordingly, AcSEC does not support this proposal.

**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?

AcSEC supports the principle that requires preparers to assess whether multiple arrangements that result in a loss of control should be accounted for as a single arrangement. AcSEC also supports including factors to consider for determining whether multiple arrangements should be accounted for as a single arrangement. Additionally, AcSEC recommends the FASB provide guidance when such multiple arrangements span more than one reporting period.

**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?
AcSEC agrees that earnings per share amounts should be calculated using only amounts attributable to the controlling interests and that the presentation of earnings per share information is primarily for the benefit of the controlling interest shareholders.

**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?

AcSEC agrees with the requirement for disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amount of each attributable to the controlling and noncontrolling interests.

AcSEC notes that International Accounting Standards currently require a statement of changes in equity. If U.S. generally accepted accounting principles had a similar requirement for such a statement, this would likely eliminate the need for separate disclosures. AcSEC also notes that many U.S. companies already prepare such a statement. Thus, the FASB may wish to consider whether convergence of the required financial statements would alleviate the need for additional disclosure requirements.

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

AcSEC agrees that disclosure of the amounts attributable to the controlling interest may be of benefit to the controlling shareholders and other primary users of the consolidated financial statements and therefore supports such disclosures. AcSEC agrees that similar disclosures should not be required for noncontrolling interests.

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

AcSEC agrees that a reconciliation should be required 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. However, see additional commentary in Question 8 regarding the possibility of requiring a statement of changes in shareholders’ equity that would encompass such a reconciliation if the FASB adopts the proposal to include noncontrolling interests in shareholder equity.

**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.

AcSEC supports disclosures that would provide greater transparency of transactions with noncontrolling shareholders. This information is helpful to the shareholders and other users of the consolidated financial statements to better understand the economic impact of
investment decisions made by the parent. However, AcSEC is concerned that the earnings per share disclosures will be confusing, as they do not necessarily represent transactions which are the results of the earnings process. For example, AcSEC does not believe that the purchase of an additional interest in a subsidiary from a noncontrolling shareholder should affect earnings per share. On the other hand, AcSEC does believe that the sale of an interest in a subsidiary (yet still controlled) is a transaction that is reflective of performance.

**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?

AcSEC agrees that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required.

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

AcSEC is in support of the proposed transition requirements. AcSEC is supportive of the goal to improve comparability of financial information, and agrees with the requirement of retrospective application of the presentation and disclosure requirements of the ED. AcSEC also agrees that retrospective application involving recalculation of prior amounts would be impracticable.
Appendix C

Proposed FASB, Business Combinations: a replacement of FASB Statement No. 141
- Insurance Specific Comments

In December 2003, the Planning Subcommittee of AcSEC and the AICPA Insurance Expert Panel requested that the FASB consider several significant issues related to business combinations by insurance enterprises prior to the release of this exposure draft.

AcSEC has the following insurance entity specific concerns that AcSEC believes should be clarified or addressed in a final standard:

AcSEC appreciates the proposed guidance in paragraph 36 of the ED that appears to be directly applicable to insurance enterprises that states:

36. After initial recognition, contingencies shall be accounted for as follows:
   a. A contingency that would be accounted for in accordance with Statement 5 if it were acquired or incurred in an event other than a business combination shall continue to be measured at fair value with any changes in fair value recognized in income in each reporting period.
   b. All other contingencies shall be accounted for in accordance with generally accepted accounting principles. For example:
      (1) A contingency that is a financial instrument shall be accounted for in accordance with applicable financial instrument guidance.
      (2) A contingency that is an asset or liability arising from an insurance contract shall be accounted for in accordance with FASB Statement No. 60, as amended (including the intangible asset, if any, recognized for the difference between the amounts recognized on the acquisition date at fair value and the amounts that would be recognized in accordance with Statement 60).

Scope of Paragraph 36:

AcSEC believes there is significant confusion as to which contracts, in whole or in part, should be considered contingent liabilities and accounted for under paragraph 36 of the ED. AcSEC recommends that the FASB modify the wording in paragraph 36 (b)2 to include all contracts covered by insurance guidance:

(2) A contingency that is an asset or liability arising from an insurance contract shall be accounted for in accordance with FASB Statements No. 60, 97, 113 or other appropriate literature (including the intangible asset, if any, recognized for the difference between the amounts recognized on the acquisition date at
AcSEC believes that acquired Statement 113 reinsurance recoverables should be included as a contingent asset under the guidance in paragraph 36 b(2) of the ED, as that would result in consistent accounting between the insurance recoverable and the direct claim liability of an insurance company.

Contingent Commissions:
AcSEC also requests clarification as to whether assumed contingent commissions payable to brokers are intended to be included as a contingency arising from an insurance contract, and accounted for under paragraph 36 b(2) of the ED. As the transaction is not between an insurance company and insured, but rather an insurance company and a broker, it is not clear whether the contingent commissions payable to the broker is considered to be a contingency arising from an insurance contract. Paragraph 44 of Statement 60 discusses that separate liabilities should be accrued for retrospective commissions or experience refund arrangements based on experience and provisions of the contract and seems to infer that the liability arises from the insurance contract.

Definition of a Business Combination:
AcSEC also questions how loss portfolio transfers (with or without novation) or other transfers by contract would fit into the proposed definition of a business combination, and requests clarification for these situations.

Risk Transfer:
AcSEC also recommends that the final guidance clearly state that the risk transfer assessment and determination of contract classification (retroactive or prospective) of acquired insurance or reinsurance contracts are not meant to be re-evaluated as of the acquisition date using assumptions appropriate on that date unless the terms of the insurance or reinsurance contract are modified as the result of the business combination. AcSEC believes that the acquisition of insurance or reinsurance contracts in a business combination should not be considered a contract amendment requiring reassessment of risk transfer or classification, as the acquirer is merely stepping in the shoes of the acquiree.

Contract Inception:
For Statement 97 deferred acquisition costs, SOP 03-1 minimum death benefit liabilities, and other instances where it is necessary to consider all activity back to the inception of the contract and retrospectively adjust the balances. It is unclear in the ED if the acquirer should continue using activity from inception of the contract or just from the acquisition date. AcSEC recommends that the final guidance should state that for these purposes the acquisition date should be considered the inception of the contract.

Premium Deficiency:
AcSEC recommends that the amendment to paragraph 33 of Statement 60 in paragraph D 13 of the ED should be revised as follows:

A premium deficiency shall be recognized in the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, the portion of the intangible assets related to the acquired unearned premium, and maintenance costs exceeds related unearned premiums.

AcSEC believes that the original proposed wording was written too broadly and implied that all intangible assets related to short-duration contracts should be included in the premium deficiency test. The revised wording is meant to eliminate any possible double counting by specifically stating the intangible assets included only relate to the unexpired short-duration contracts.

**Day 2:**
The December 2003 letter also requested that the FASB address Day 2 issues. For example, the letter noted that in accounting for acquisitions of short-duration contracts, a common approach under current practice is to measure the liabilities for claims and claim adjustment expenses at their nominal value with the difference between the nominal value and the fair value of the liabilities (essentially the fair value adjustment of the net cash flows embedded in the acquired liabilities, the impact of the risk free discount rates, the risk premium and the credit adjustment, to the extent applicable) recorded as the “net fair value adjustment on acquired liabilities” or a similar distinguishable account similar to a debt discount. At the acquisition date, the sum of these two components will equal the fair value of the liabilities.

However, there is diversity in subsequent post-purchase accounting. The fair value adjustment on claims and claim adjustment expenses should be accreted and reported as part of losses incurred in the statement of operations, using an effective interest method, over the estimated remaining settlement period on the policies acquired. However, changes in the timing and/or ultimate amount of claims to be paid need to be addressed in the accounting for the fair value adjustment.

AcSEC requests that for purposes of consistency, the final guidance should discuss how the intangible asset (the difference between the amounts recognized on the acquisition date at fair value and the amounts recognized in accordance with the appropriate accounting guidance, such as Statements 60 and 113) should be accounted for after the initial acquisition or note if there will be an additional project to discuss such Day 2 issues. For long-duration contracts the asset should be amortized in accordance with EITF 92-9, and no additional guidance is needed.

AcSEC currently has a project to update the AICPA Property and Liability Insurance Audit and Accounting Guide. The Property and Liability Guide task force has included Day 2 business combination issues as a significant area lacking guidance, and would plan to develop an issues paper if not addressed in the final FASB business combination guidance. If the FASB wishes to address these issues in a final standard, as AcSEC
recommends, AcSEC volunteers to form a task force to work on developing such guidance in conjunction with the FASB staff.