Dear Ms. Bielstein:

We are pleased to comment on 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 (ED). Our letter consists of three parts: overall comments; comments on the Board's specific questions; and, comments on specific paragraphs of the ED.

**Overall Comments**

The ED proposes to fundamentally change the way a noncontrolling interest is reported in the statement of financial position, accounting for ownership changes in a subsidiary and accounting for the loss of control of a subsidiary. We do not agree with those changes proposed in the ED. The Board has not, in our view, provided sufficient justification to alter the present, and long standing, accounting and reporting for the fundamental changes just enumerated. For example, the ED proposes to adopt the economic entity concept for display purposes but yet retains the parent company concept for purposes of reporting earnings per share.

A stated objective of the Board is to simplify U.S. accounting principles. We believe the proposed ED will unnecessarily further complicate the application of accounting principles. Thus, the ED fails to achieve an important objective of the Board.

While we agree that certain disclosures in the proposed ED will add further transparency to the financial statements, we question the necessity of this ED. Accordingly, we recommend the Board withdraw the ED from further consideration. The rationale for our objections to the fundamental changes required by the ED will be explained in our comments in the next part of this letter.

Suzanne Q. Bielstein
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org.
File Reference No. 1205-001
Comments on Specific Questions

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?

We do not agree that the noncontrolling interest is part of the equity of the consolidated entity. Consolidated financial statements are prepared for the benefit of the stakeholders of the parent company. We observe that the Board has reaffirmed this view in the proposed amendment of FASB Statement No. 128, Earnings per Share. We believe the long standing practice of respecting the parent company concept should prevail. The Board has not, in our view, presented persuasive reasoning to abandon the parent company concept in favor of the economic entity concept. While the noncontrolling interest may not meet the definition of a liability, neither does it belong as a residual interest of the stakeholders of the parent company. To solve the dilemma of how to report the noncontrolling interest in consolidated financial statements we suggest the Board revise the Concepts Statements to accommodate this unique accounting phenomena. The Board has reasoned that reporting the noncontrolling interest as part of the equity of the consolidated entity will eliminate diversity in practice. We believe this reasoning is unfounded. The predominant practice is to report the noncontrolling interest in the “mezzanine”; it is our experience that any other presentation is based solely on the fact that such amount is not material to an understanding, use and interpretation of the consolidated 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?

We do not agree with the proposed requirement to present the noncontrolling interest within equity of the parent company. Nevertheless, if the Board concludes to require the use of the economic entity concept, we agree with the proposed requirement to present the noncontrolling interest separately from the parent company shareholders’ interests in the consolidated statement of financial position. We believe that such information is relevant to each of the stakeholders’ interests in the consolidated entity.

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 requirement to attribute net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests. We also agree with the requirement to attribute net income or loss and the other components of other comprehensive income to the controlling and noncontrolling interests in accordance with a contractual arrangement when that arrangement results in a different attribution method than their relative ownership interests in the subsidiary. However, we disagree with the proposed requirement to attribute losses to the noncontrolling interest when the cumulative losses exceed the equity attributable to the noncontrolling interest. In keeping with our view that the noncontrolling interest should not be presented as part of the equity of the parent company, we do not believe a negative balance in the noncontrolling interest should be reported as a negative “liability” nor do we believe such negative balance should be reported as an asset except in the unusual situation when the noncontrolling shareholders are required to support the operations of the subsidiary and they are capable of doing so.
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 agree that changes in ownership interests in a subsidiary after control is obtained and that do not result in a loss of control should be accounted for as equity transactions. We believe that increases and decreases in the parent company's ownership interests that do not result in a loss of control should be accounted for as its acquisition and disposition of an interest in the underlying net assets. Gains and losses on the dispositions of net assets should, we believe, be reported in the net income applicable to the controlling interest.

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 agree with the Board that the loss of control of a subsidiary is a significant economic event which changes the way the underlying investment should be reported in the financial statements. However, we disagree with the proposed requirement in the ED to remeasure the retained investment in the former subsidiary to fair value with any resulting gain or loss recognized in income. The proposed requirement to remeasure the retained interest would suppose there is an acquisition of the retained interest; we find this to be curious logic to pretend to acquire something that is already owned. The logic would be more plausible if the investor was required to adjust the retained interest to its fair value as of each subsequent date for which financial statements are prepared. However, we are not suggesting that equity method accounting be replaced by fair value accounting, nor are we suggesting discontinuing the exception to fair value accounting provided for in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, for investments in equity securities for which there is no readily determinable fair values.

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 agree with the proposed guidance for determining whether multiple arrangements should be accounted for as one arrangement. We suggest that it be indicated that the factors listed may not be all inclusive. We believe it would be helpful if the Board would provide guidance on accounting for separate transactions that are part of a single arrangement but straddle one or more reporting periods.

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 interest. We again question the Board's logic in supporting the parent company concept for purposes of reporting earnings per share but reject that approach in favor of the economic entity concept for reporting the equity of the parent company. How can financial reporting be representationally faithful when two fundamentally different concepts are embedded in one Statement of Financial Accounting Standards?

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?

We agree with the proposed requirement to disclose the total amounts of consolidated net income and consolidated comprehensive income and the amounts of each attributable to the controlling and noncontrolling interests.
Question 9 – Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

Since we believe consolidated financial statements are those of the parent company and its subsidiaries (parent company concept), we believe it is unnecessary to separately disclose amounts attributable to the controlling interest. However, we do believe it would be useful to both the controlling and noncontrolling shareholders to disclose amounts attributable to the noncontrolling interest for those items listed in paragraph 3D.b. of the ED. We suggest the disclosure requirements in complete interim financial statements extend only to public enterprises.

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

We agree with the proposed requirement to reconcile the period-to-period changes in the noncontrolling interest. We suggest the disclosure requirements in complete interim financial statements extend only to public enterprises.

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.

We 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. However, we do not believe the additional earnings per share data discussed in paragraph 3D.d. of the ED should be required. We believe such additional per share data is unnecessary and would be confusing to users of the financial statements, as they may believe this is an alternative measure of performance. We further believe the desire to have such additional per share data disclosures would be obviated if the Board accepts the parent company concept for reporting consolidated financial statements.

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?

We agree with the proposed EDs requirement to disclose the gain or loss recognized on the loss of control of a subsidiary. Consistent with the parent company concept, we support disclosure of the gain or loss recognized on the disposition of any portion of the parent company’s interest in the subsidiary.

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

Assuming the Board makes no substantive changes to the accounting requirements in the ED, we agree with the proposed transition requirements.
Comments on Specific Paragraphs

1. We suggest the word "financial" be inserted as a modifier before the word "statements" in the second and third sentences in paragraph 9 of the ED. We have the same suggestions for paragraph 18 and the first and third sentences in paragraph 19 of the ED. Further, we suggest the heading before paragraph 19 of the ED be revised to read "Parent-Company Financial Statements".

2. The third sentence of paragraph 24 of the ED describes the allocation of a so-called control premium to be attributed to the controlling interest. The last sentence of that paragraph requires a reattribution of goodwill between the controlling and noncontrolling interests in a subsidiary if there is a subsequent change in the relative ownership interests. We disagree with the reattribution of the control premium to the noncontrolling interest. The reattribution requirement seems to negate the objectives of attributing the control premium to the controlling interest, adds further complexity to the application of the accounting requirements for changes in the level of ownership in the subsidiary, and provides for gaming opportunities in measuring a gain or loss on a partial disposal of the subsidiary which results in the loss of control of that subsidiary. We also believe that in the event there is an impairment of goodwill, the impairment write down should first be allocated to the controlling interest to the extent of any remaining control premium, and then allocated between the noncontrolling and controlling interests in accordance with either their relative ownership interests or a contractual arrangement if different as discussed in paragraph 21 of the ED.

3. We suggest the wording in paragraph 27.b. be revised to read: "The parent's carrying amount of its interest in the former..."

4. As to paragraph D9.a which amends paragraph 8 of FASB Statement No. 58, we believe the second sentence of amended paragraph 8 should be revised to read: "Paragraph 23 of FASB Statement No. 154, Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3, requires retrospective application to prior financial statements for changes in reporting entities."

The Board or its staff may contact either Ray Krause (815.961.7490) or Jay Hanson (952.921.7785) with any questions about any of the foregoing comments. We apologize for the lateness of this response, but hope the Board and its staff will nevertheless find our comments helpful as they re-deliberate the issues in the proposed Statement.

Sincerely,

McGladrey & Pullen, LLP