



Letter of Comment No: 3/
File Reference: 1205-001

October 28, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CN 06856-5116

File Reference No. 1205-001

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Exposure Draft of a Proposed Statement, *Consolidated Financial Statements, Including Accounting and Reporting of Non-controlling Interests in Subsidiaries*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

The Committee agrees with the major conclusions of the Exposure Draft, with only the following comments:

Question 3: Attributing comprehensive income to the controlling and non-controlling interests

Agree, while noting the open issue regarding the need for additional guidance for variable interest entities (par. B19).

Question 5: Re-measurement and income recognition upon loss of control

We are concerned about opportunities to manipulate earnings arising from this ability to record income or loss with respect to the retained investment in the former subsidiary. There is not necessarily a clear distinction when control has changed, especially when factors other than mere changes in equity interest are actually involved. Companies would need to make a very convincing case that a change in control has taken place if, for instance, only a few percentage points of equity change hands, in order for the marketplace, the regulators and the auditors to believe in the reality of the transaction.

Since the Board has put in anti-abuse provisions in the proposed standards elsewhere, perhaps such provisions could be added here to address this concern.

Some members indicated that they believe recognition of a gain related to the re-measurement of the ownership interest retained is not appropriate. The portion sold may contain a “control premium” which when applied to the non-controlling interest retained would overstate the carrying value of the investment. They believe the retained investment should remain at its “cost” prior to disposal of the controlling portion unless there are indications of other than temporary impairment.

Those members who agreed that re-measurement is appropriate suggested recording the income effect in other comprehensive income until such time as the company disposes of the retained investment. Others felt that the income effect did not qualify for the more transient nature of other comprehensive income.

Question 9: Disclosures of amounts attributable to controlling interests

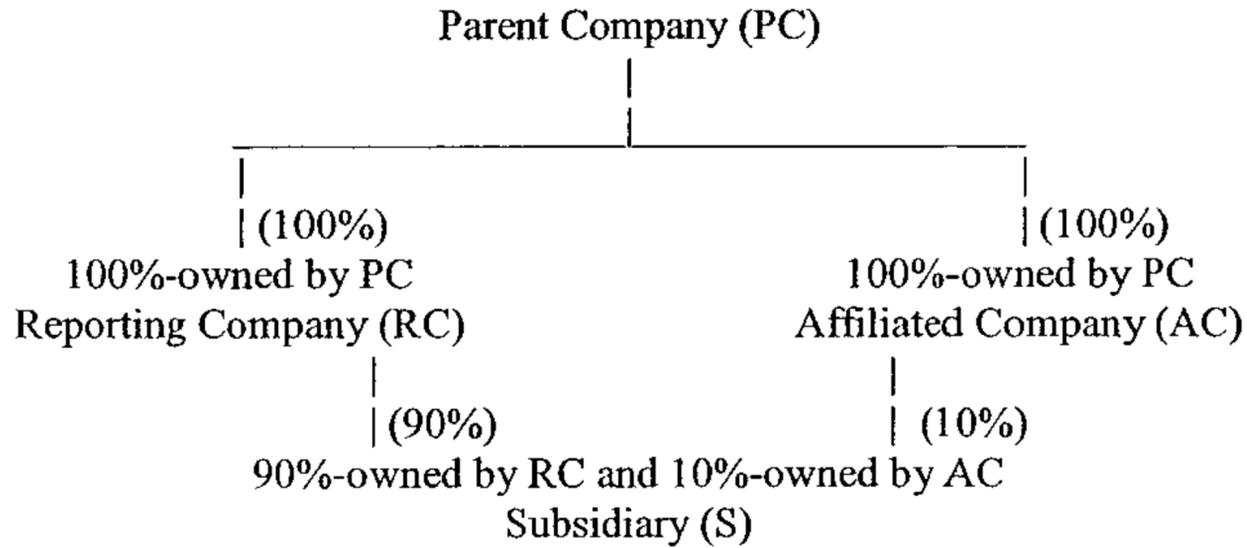
We agree that the disclosure of those amounts attributable to the controlling interest should be required for companies who are publicly held. We believe that the disclosures are not relevant for entities that are privately held, as the concept of controlling interest is not as critical for the companies who are not closely followed by investment analysts.

Question 11: Disclosures related to non-controlling interests

We agree that the transactions with the non-controlling interest should be disclosed just as any other significant change in owners’ equity. We disagree that a schedule calculating a change from net income attributable to the controlling interest and transfers to non-controlling interest, both in amounts and EPS, as shown in par. A9 should be required. We believe it creates confusion as to which amount and per share amount are more relevant to the user. If the Board believes that such disclosures are relevant for investment analysts and others who wish to continue using current models incorporating such matters, then perhaps the disclosure should be created to exist for only a limited time period.

Other Issues

The definition of non-controlling interest (par. 5.e) includes ownership interests other than those of the parent *and the parent’s affiliates*. The definition of affiliate (par. 5.a) includes entities under common control. Would (1) the following structure result in no non-controlling interest for the reporting company (RC) with respect to the 10% ownership in Subsidiary (S) and the Affiliated Company (AC) and (2) is that the Board’s intent? As we read the proposed standard, we believe it would result in no non-controlling interest, under the definition. Given that the same entity ultimately owns all of the equity interest of RC, we would agree that this is the appropriate result.



The Committee would like to request that the effective date of the Statement be at least six months from the issue date of the final statements on business combinations and non-controlling interests. The proposed accounting standards are complex and constitute a significant change to current practice that will require considerable training on the part of accountants, auditors, valuation professionals and other experts to understand and implement the new accounting standards.

The members of the Accounting Principles Committee of the Illinois CPA Society thank you for the opportunity to respond to this Exposure Draft. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,



James L. Fuehrmeyer, Jr., Chair
Accounting Principles Committee

APPENDIX A
ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2005- 2006

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large (National Firms):

James L. Fuehrmeyer, Jr., CPA	Deloitte & Touche LLP
Brian L. Heckler, CPA	KPMG LLP
John A. Hepp, CPA	Grant Thornton LLP
Steven C. Johnson, CPA	McGladrey & Pullen LLP
Lisa M. Koblinski, CPA	Ernst & Young LLP
Kirsten M. Lescher, CPA	Plante & Moran, PLLC
Matthew G. Mitzen, CPA	RSM McGladrey Inc.
Mark K. Scoles, CPA	Grant Thornton LLP
Reva B. Steinberg, CPA	BDO Seidman LLP
John M. Stomper, CPA	Deloitte & Touche LLP
Joan Waggoner, CPA	Blackman Kallick Bartelstein LLP

Medium (more than 40 employees):

Marvin A. Gordon, CPA	Baygood & Rose Chartered
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Laurence A. Sophian, CPA	Ostrow, Reisin, Berk & Abrams, Ltd.

Small (less than 40 employees)

Walter J. Jagiello, CPA	Walter J. Jagiello, CPA
Kathleen A. Musial, CPA	Benham, Ichen & Knox LLP
Roger L. Reitz, CPA	Cray, Kaiser Ltd., CPAs
John A. Rossi, CPA	William F. Gurrie & Co., Ltd.

Industry:

Peter J. Bensen, CPA	McDonald's Corporation
Melinda S. Henbest, CPA	The Boeing Co.
James B. Lindsey, CPA	TTX Company
John H. Wolter, CPA	Retired/Natural Gas Pipeline Company of America

Educators:

David L. Senteney, CPA	Ohio University
Leonard C. Soffer, CPA	University of Illinois at Chicago
Charles A. Werner, CPA	Loyola University

Staff Representative:

Paul E. Pierson, CPA	Illinois CPA Society
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