



December 20, 2012

Ms. Susan Cospers, Chairman
Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Submitted via electronic mail to director@fasb.org

Dear Ms. Cospers,

FEI's Committee on Corporate Reporting (CCR) appreciates the opportunity to provide its views on EITF Issue 11-A, *Parent's Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity*. The companies on CCR are almost evenly divided in terms of their existing practice with regard to this issue. About half the companies follow an approach that is consistent with the original EITF tentative conclusion, while the other half are consistent with the revised conclusion. We are writing to request that the Task Force consider a third alternative of a one-time policy election coupled with enhanced disclosure.

CCR is concerned that the revised tentative conclusion reached by the Task Force will inevitably give rise to significant interpretive complexity related to the definition of foreign operation and that there may need to be additional work by either the EITF or the FASB to answer these questions. While we understand and appreciate the basis for the revised position of the Task Force, we would observe that the basis for the original conclusion also was well supported and a logical extension of conclusions reached by the Board regarding the scope of FAS 160. CCR is sympathetic to the operational complexities of allocating CTA inherent in the original conclusion and we are not recommending that the Task Force revert to the original tentative consensus. Rather, CCR believes that each view has strong support and carries with it associated complexities. We also note that companies have found a way to cope with the consequences of their chosen method.

CCR observes that disposal transactions that result in a release of CTA are, by definition, unique transactions that are not directly comparable to those of

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other companies. We further note that such transactions are episodic and tend to be infrequent in nature. Accordingly, we believe that the benefits of adopting a single approach to this issue are modest at best and that there is the potential for significant costs in terms of the time and effort required for a significant number of companies to have to change from what they have been doing. We believe that there is some merit to the option of mandating a one-time policy election and providing disclosure to investors about that election.

CCR notes that the underlying transactions are not dissimilar to SAB 51 transactions, where GAAP had historically permitted a one-time policy election. In existing GAAP, we have many areas where policy elections are specified including: inventory (FIFO/LIFO), PP&E (depreciation methods), pension accounting (amortization of gains/losses). There are also a number of issues where the EITF itself has reached consensuses that similarly provide for one-time policy elections including: EITF 06-3 (classification of sales and use taxes in the income statement) and EITF 00-10 (classification of shipping and handling costs). Perhaps the closest analogy that is not in GAAP but has been adopted in practice relates to seller's accounting for contingent consideration, where reporting entities are permitted to account for the gain up-front on the date of sale or as a contingent gain in accordance with FAS 5 (ASC 450).¹ Similar to CTA releases associated with disposal transactions, such sale transactions are inherently non-comparable and there are good arguments in support of either accounting treatment.

Attached in Appendix A to this letter is a sample of some of the interpretive questions, developed by one of our CCR companies, that the committee believes need to be addressed if the Task Force decides to affirm its tentative conclusion as a final consensus. Depending on the desired timeframe for transition to this conclusion, the Task Force may wish to consider whether a separate issue should be added to its agenda or whether these matters should be addressed as a separate issue within the proposed consensus.

We appreciate the opportunity to provide these views to the Task Force and would be pleased to discuss these matters further at your convenience.

Sincerely,



Loretta V. Cangialosi
Chair, Committee on Corporate Reporting
Financial Executives International

¹ This issue was discussed at the 2012 AICPA SEC Conference.

Appendix A Application Examples

Summary:

The EITF reached a consensus-for-exposure that complete or substantially complete liquidation of the foreign entity is required to release CTA for transactions occurring within a foreign entity. However, transactions affecting investments in a foreign entity may result in a full or partial release of CTA even though complete or substantially complete liquidation of the foreign entity has not occurred. Furthermore, for transactions involving step acquisitions, the CTA associated with the previous equity-method investment will be fully released when control is obtained and consolidation occurs.

The following example illustrates some of the interpretive issues that will be faced in determining how to implement the consensus-for-exposure. (n.b., some of the differing views below contemplate current accounting guidance provided by the major accounting firms, under the assumption that their guidance will not change upon issuance of a final consensus):

Example Background

Legal Entities (LEs) 1-3 are owned by a foreign holding company that is euro functional. The foreign holding company is owned by a US dollar functional parent. LE's 1-3 are euro functional – assume they are the result of various acquisitions and that Consumer Mortgage has different mortgage types in each of the LEs (such as fixed rate amortizing, interest only and ARM).

Consumer Mortgage across LE1, LE2 and LE3 has the same management team but the other asset groups each have different management teams. In addition, parent company's reportable segments are Consumer (which includes both mortgage and credit card), Real Estate and Commercial Lending. The following represents the assets in each of the LEs.

LE1

100 Euro - Consumer Mortgage

LE2

60 Euro - Consumer Mortgage

15 Euro - Real Estate

LE3

30 Euro - Consumer Mortgage

30 Euro - Commercial Lending

30 Euro - Credit Card

Assume the parent decides to liquidate the consumer mortgage assets in Europe. The parent enters into a transaction to sell its investment in LE1 to an unrelated third party plus the consumer mortgage assets from LE2 and LE3. Parent intends to use the proceeds to grow the credit card business in LE3. Should CTA be reclassified to earnings?

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View A – Reclassify CTA from LE1 because parent sells its investment in the entity but not the CTA in LE2 or LE3 because the investment in the entities are not sold

View B – Reclassify CTA from LE1, and applicable portion of CTA from LE2 and LE3 because liquidating the consumer mortgage operation in Europe (and per accounting firm guidance, consumer mortgage is not related/similar to the real estate, commercial lending or credit card operation)

View C – Do not reclassify CTA from LE1, LE2 or LE3 because although selling the investment in LE1, there are still European operations that consolidate into the foreign holding company. Thus, the transaction is not a liquidation of 90% of the assets of the foreign holding company

View D – Do not reclassify CTA from LE1, LE2 or LE3 because although selling the investment in LE1, the credit card business in LE3 is also a “Consumer” operation and thus similar to mortgage (a variation on the accounting firm guidance).

Conclusion:

Based on the affirmed EITF conclusion it would appear that the answer is View A or potentially View C. However, existing firm accounting guidance might suggest that View B or View D is the correct answer (depending upon the determination of the degree of similarity of the “operations” that are held by the foreign holding company).

Other fact pattern variations for consideration:

1. What if LE1 on its own meets the definition of a business?
2. What if LE1 on its own did not meet the definition of a business but rather the combination of the assets in LE1 – LE3 resulted in a transaction meeting the definition of a business.
 - a. Would the sale of LE1 be considered a “substantial liquidation of a legal entity”?
3. What if the investment in LE1 was not sold but rather, the consumer mortgage assets in LE1-LE3 were sold?
4. What if the consumer mortgage assets in LE2 and LE3 were legally transferred to LE1 and then LE1 was sold in its entirety?