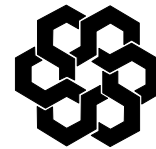


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**International
Accounting
Standards
Board**

This document is provided as a convenience to observers at IASB meetings to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB paper. However because these notes are less detailed some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: January 2006, London
Project: Business Combinations
Agenda Item: 6B
Subject: FASB comment letter analysis – non-controlling interests



**Financial Accounting
Standards Board**

*Exposure Draft, Consolidated Financial Statements, Including Accounting and
Reporting of Noncontrolling Interests in Subsidiaries*
Comment Letter Summary

INTRODUCTION

1. The Board received 49 comment letters in response to the June 30, 2005 FASB Exposure Draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. The 120-day comment period ended October 28, 2005. The Exposure Draft (ED) was issued as part of the Board's joint business combinations project with the IASB. However, the ED was not drafted jointly with the IASB. Therefore, this memorandum summarizes the comments received by the FASB

only. The following table summarizes the types of entities that submitted comment letters:

Category	Number of Letters
Academic	5
Industry: Banking	5
Industry: Insurance	2
Industry: Other	18
Accounting Association	8
Public Accounting Firm	7
Other	4
Total	49

2. This memorandum summarizes the comments received related to each of the 13 issues and any additional issues raised by respondents. It is not clear whether a non-response indicates support for a specific proposal or not.

3. The majority of respondents did not express support for the changes proposed in the ED. In general, those respondents stated that they prefer current practice over the proposals in the ED. Some letters addressed all 13 questions in the *Notice to Recipients* section of the ED; however many did not.

ISSUES OF MOST CONCERN

4. Respondents primarily focused on the proposed changes relating to:
- Classification of noncontrolling interests as equity, including accounting for changes in ownership interests of subsidiaries
 - Attribution of consolidated net income or loss and components of other comprehensive income to controlling and noncontrolling interests
 - Attribution of losses in excess of the noncontrolling interest's equity
 - Necessity and usefulness of disclosure requirements.

ISSUE SUMMARY

5. The staff summarized the comments received by each major issue in the following sections.

Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position

6. Questions 1 and 2 in the Notice asked respondents whether they believed that noncontrolling interests represent an equity interest in the consolidated entity and whether

noncontrolling interests should be classified as a separate component of equity on the consolidated balance sheet.

Defining Noncontrolling Interests as Equity

7. A majority of the respondents that expressed clear views disagreed with the proposal that equity interests of a subsidiary held by noncontrolling parties represent an equity interest in the consolidated group. Respondents that disagreed gave the following reasons:

- a. ***Although noncontrolling interests do not meet the definition of a liability, noncontrolling interests do not meet the definition of equity either.*** Noncontrolling interests do not have an ownership interest in the equity of the parent company and, therefore, should not be classified as equity in the consolidated balance sheet.
- b. ***The parent company approach to financial reporting is favored in practice over the economic unit approach.*** Therefore, the proposals, which are based on the economic unit approach, will not improve the relevance and transparency of financial information.
- c. ***The current practice of presenting noncontrolling interests on the balance sheet in the mezzanine is common, well understood, reflects the economics underlying the entities and, therefore, should be retained.*** Fidelity International (CL #28) and ACLI (CL #30) seemed to prefer mezzanine classification but stated that noncontrolling interests are closer in nature to a liability than equity. One constituent (CL #17) requested that the Board consider proportional consolidation as a method for consolidating less-than-100-percent-owned subsidiaries, which would eliminate the presentation of noncontrolling interests altogether.
- d. ***The classification of noncontrolling interests should be addressed in the Conceptual Framework Project.*** Many respondents stated that the Board should create a new financial statement element for noncontrolling interests as part of the Conceptual Framework project.
- e. ***The usefulness of classifying noncontrolling interests as equity is not clear.*** Wells Fargo (CL #19) and ACLI (CL #30) questioned the usefulness of the proposed classification of equity. They expressed concern about the impact that classifying noncontrolling interests in consolidated equity will have on key financial and performance ratios, which they believe are calculated uniformly and are commonly understood by users. The Texas Society of Certified Public Accountants (CL #34) expressed concern that a reader analyzing return-on-equity may be misled by the proposals.

8. A minority of respondents agreed that noncontrolling interests are equity. Those respondents consisted of mostly academics, accounting societies, a few preparers, and one accounting firm. Those respondents gave the following reasons for their support:

- a. They support the economic unit concept.
- b. There is no support in the conceptual framework for classifying noncontrolling interests as liabilities or mezzanine items.
- c. Holders of noncontrolling interests are owners of a residual interest in a component of the consolidated entity.

9. Taubman Centers (CL #39), a company formed through an umbrella partnership REIT transaction as outlined in EITF Issue No. 94-2, *Treatment of Minority Interests in Certain Real Estate Investment Trusts*, stated:

...considering the noncontrolling interests in the operating partnership as part of the equity of the consolidated entity, separate from that of the REIT parent, would improve the relevance and transparency of our financial reporting, as we believe the ownership risks and rewards of the noncontrolling interests in our operating partnership mirror those of the REIT shareholders. The noncontrolling interests participate in their investments in the same way as other equity stakeholders, earning the benefits of a profitable enterprise, bearing the risks of an unprofitable one, and voting on the same basis with the common shareholders. Treatment of the noncontrolling interests as part of consolidated equity would therefore be more representative of the risks and rewards of ownership in our business. We believe the accounting contained in the Proposed Standard is indeed justified.

Classifying Noncontrolling Interests on the Balance Sheet

10. A majority of respondents disagreed that noncontrolling interests should be classified as equity on the balance sheet because they do not believe noncontrolling interests are equity. Those respondents believe that the noncontrolling shareholders' interests differ significantly from the parent shareholders' interests and should be presented separately. However, some of those respondents stated they would not object to classifying a noncontrolling as a separate component of equity as long as the classification did not dictate the accounting for noncontrolling interests.

11. KPMG's (CL #33) comments were representative of those that are willing to classify noncontrolling interests as equity if the Board goes forward with the proposals in the ED. KPMG stated:

We do not object to the proposal that noncontrolling interests be included in consolidated equity if presented separately from the parent company's equity. With respect to this proposal, we believe that classification of noncontrolling interests in equity should only relate to presentation as we believe that the economic entity approach is not an appropriate basis for preparing consolidated financial statements of the parent company.

We also agree that noncontrolling interests should be presented separately from the equity attributable to shareholders of the parent. We observe that shareholders representing noncontrolling interests have rights very distinct from the shareholders of the parent. Noncontrolling interests represent equity claims that are restricted to particular subsidiaries, whereas the shareholders of the parent have equity claims on the entire consolidated group.

However, classification of noncontrolling interests in equity should only relate to presentation and should not affect the accounting for transactions with the noncontrolling interests.

12. Most respondents who agreed that noncontrolling interests are equity also agreed that noncontrolling interests should be classified as a separate component of equity. However, Credit Suisse Group (CL #11) disagreed with the proposal to present noncontrolling interests separately from parent shareholders' equity. They suggested that an entity's equity not be separated between the controlling interest and noncontrolling interest:

While numerous owners may exist for an entity, their ownership interest is not distinguishable from another in the financial statement of the entity itself. For this reason, we believe that an entity's equity (including a partially owned subsidiary) should not be separated between that of a controlling interest and a noncontrolling interest. Rather, disclosure should be made of the potential impact on cash flows if distributions were to be made indicating what cash flow distributions would be paid to third party owners outside of the controlling interest.

We believe this treatment of equity in an entity is consistent with the decision in the Business Combinations ED to fair value 100 percent of the acquiree's assets even in partial acquisitions. For example, if a controlling interest in an asset is obtained through acquisition of the entity and personnel within the entity

constituting a business, 100 percent of the asset is recognized and a corresponding equity (and/or liability) balance should be recognized. The control of the asset is with the acquiring company. The equity accounts should reflect this 100 percent control. What is important is not current or future attribution of ownership of control between the controlling and noncontrolling interests but rather what will happen with cash flows provided by the asset. By viewing equity as equity rather than trying to attribute the equity between controlling and noncontrolling interests the potential deficits to be attributed to noncontrolling interests would be more representationally faithful of the true economics.

Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests

13. Question 3 in the Notice asked respondents if they agreed with the proposal that the entity attribute net income or loss and each component of other comprehensive income to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests entered into a contractual arrangement that requires a different attribution between them. In that case, the entity would attribute net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests based on the contractual requirements of that arrangement. Additionally, the entity would attribute losses applicable to the noncontrolling interest of the subsidiary even if those losses exceed the noncontrolling interest in the subsidiary's equity.

14. Not all respondents addressed this question. Of those respondents that did, many agreed with the proposal for attributing net income or loss and each component of other comprehensive income to the controlling and noncontrolling interests. However, many respondents also disagreed with the proposal that losses in excess of the noncontrolling interest in the subsidiary's equity should be attributed to the noncontrolling interest.

Attribution of Net Income or Loss and Components of Other Comprehensive Income

15. Those respondents that supported the proposed attribution of net income or loss and components of other comprehensive income did not necessarily agree with the economic unit model or that noncontrolling interests should be classified as equity. Most respondents did not provide their rationale for why they supported this proposal; however, the following comments were given by those that did provide their rationale:

- a. One respondent [PCPS/AICPA (CL #15)] stated that “[t]his information helps users understand important operating attributes of the controlling and noncontrolling interests, which is important as the controlling interests constituency would be the expected primary users of the consolidated financial statements.”
- b. Some respondents [an individual (CL #17), BDO Seidman (CL #25), and Taubman Centers (CL #39)] stated that the attribution between controlling and noncontrolling interests based on relative ownership interests unless a contractual arrangement dictates otherwise would be an improvement to current practice.

16. One constituent [Deloitte (CL #7)] that agreed with the proposed attribution of income, losses, and other comprehensive income requested that the Board “provide guidance in the final Statement on allocating income or loss in a situation where the noncontrolling interest owns common stock of the parent and can put the common stock to the parent at fair value. The proposed Statement does not address whether this put option held by the noncontrolling interest (whether freestanding or embedded) should be factored into the allocation of income or loss.”

17. Two constituents [CL #s 17 and 24] agreed that net income should be attributed to controlling and noncontrolling interests but disagreed that components of other comprehensive income should be attributed to noncontrolling interests. Specifically, one constituent (CL #24) believes the added cost of gathering information for components of other comprehensive income will not be beneficial because the added disclosures “would muddle the financial statements and confuse the typical financial statement user with other disclosures which may appear to be similar.”

18. Constituents that disagreed with the attribution proposal had the following comments:

- a. The proposed attribution requirements would add unnecessary clutter and complexity to the financial statements, create confusion, and be an irrelevant disclosure item.
- b. The Texas Society of Certified Public Accountants (CL #34) expressed concern about potential abuse that could result from guidance allowing allocation based on contractual arrangements.
- c. Abbott (CL #32) disagreed partly because it believes that the statement of comprehensive income is too confusing and the requirements of the ED would

add to that confusion. This respondent suggested that attributing components of comprehensive income to noncontrolling interests be allowed but not required.

- d. Credit Suisse Group (CL #11) stated that “[a]ny such allocation is subjective in nature (even if it appears objective as a quantitative calculation) and is not a faithful representation of economic activity and ownership characteristics of the equity of an entity.”

19. The Notice did not ask respondents about income statement presentation, but some respondents stated that the current practice of deducting net income attributable to noncontrolling interests to arrive at consolidated net income should be retained. Those respondents also believe noncontrolling interests in a subsidiary are not equity and reported net income should be the amount of income attributable to the controlling interest.

Losses in Excess of Noncontrolling Interest’s Equity

20. Respondents that disagreed that losses in excess of the noncontrolling interest’s equity should be attributed to the noncontrolling interest generally do not believe noncontrolling interests are a component of equity of the consolidated entity. Those respondents stated that the noncontrolling interests have no obligation to fund excess losses. Therefore, to present a noncontrolling interest deficit would be contrary to the underlying economics. They believe that the current practice of allocating excess losses to the controlling interest is more meaningful, relevant and should be retained. Credit Suisse Group (CL #11) stated:

We believe this [the subjective nature of attributing net income or loss and the components of other comprehensive income between controlling interests and noncontrolling interests] is especially evident in the concept of allocating losses to noncontrolling interests in excess of their recorded balances as cash distributed would still be impacted (potentially) and under no circumstances are the noncontrolling interests under obligation to make further contributions to offset deficits.

21. Some respondents believed that excess losses should be attributed to the noncontrolling interest if the noncontrolling interest has an obligation, commitment, or guarantee to fund those losses [PwC (CL #12), Microsoft (CL #16), and Pfizer (CL #26)]. Deloitte (CL#7) and PwC (CL #12) both had additional comments on guarantees and similar arrangements as follows:

- a. Deloitte (CL #7) stated:

Further, specific to allocating losses, we believe the FASB should provide guidance regarding the accounting for guarantees and similar arrangements among the controlling and/or noncontrolling interests, in particular, obligations to absorb and/or cap losses or provide additional funding. The FASB also should include examples of guarantees and similar arrangements likely to be seen in practice, and the required accounting. The examples should include, at a minimum, (1) an arrangement that involves a floor on the noncontrolling interest holders' losses in the subsidiary, and (2) an arrangement that requires the parent to provide additional funding to the subsidiary in the event of subsidiary losses.

- b. PwC (CL #12) stated:

Finally, we do not agree that any guarantees or other support arrangements between the controlling and non-controlling interests should be accounted for separately. This would be inconsistent with the requirement that net income or loss should be attributed to the controlling and non-controlling interests based on contractual arrangements if such contractual arrangements would provide a result that is different from an allocation based upon relative ownership interests. Further, recording guarantees or other support arrangements separately without any effect on the way losses are attributed to the controlling and non-controlling interests would not reflect the underlying economics, which are that one party would absorb the losses of the subsidiary. We therefore suggest that current practice under both US GAAP and IFRS is not altered at present.

22. Nearly all respondents that agreed that losses in excess of the noncontrolling interests' equity capital should be attributed to the noncontrolling interest also supported the classification of noncontrolling interests as equity. Respondents gave the following reasons for their support:

- a. This treatment is consistent with noncontrolling interests being part of equity.
- b. The presentation of a noncontrolling interest deficit would be more visible to financial statement readers.
- c. The noncontrolling interests do not have further obligations to contribute assets to the subsidiary, nor does the parent.

FASB Interpretation No. 46(R) Concerns

23. Footnote 6 in the ED states that “the Board is researching in a separate effort whether or how variable interest entities should apply the guidance [in paragraph 21 of the ED]....” A number of constituents expressed concern about the lack of guidance for attributing net income or loss and the components of other comprehensive income to variable interest entities. Constituents understood that the Board is researching separately whether to provide additional guidance for variable interest entities, and requested that this guidance be provided before a final Statement is issued. For example, ACLI (CL #30) stated:

We believe that an improved model other than the one proposed in the proposed guidance, or that of APB No. 51, would be to limit the losses of the majority and minority holder to zero if neither have an obligation to fund those losses. With the adoption of FIN 46(R), companies increasingly need to consolidate non-recourse entities that they have no legal requirement or business requirement to fund in the event losses result in a negative value. For example, many insurance companies participate in investment leveraged real estate transactions through a limited liability partnership. This structure was established this way for the exact purpose of not requiring the company to incur the losses of the investment beyond its cost.

Attributing Goodwill Impairment Losses under Statement 142

24. Proposed Statement 141(R) would amend paragraph 38 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to require that if an entity has one or more partially owned subsidiaries, goodwill impairment losses shall be assigned to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill. Some constituents [Pfizer (CL #26), AMG (CL #38), and Emerson (CL #42)] expressed concerns about this proposal. AMG and Emerson believe the proposed allocation may not reflect the economic realities or contractual arrangements that exist between equity holders. Pfizer expressed concern that the proposed approach would present practical problems, especially since it has a large number of international subsidiaries.

Changes in Ownership Interests in a Subsidiary

25. Question 4 in the Notice addresses the proposal that once control of a subsidiary is obtained, an entity would account for any increases or decreases in its ownership interests

in its subsidiary that do not result in a loss of control as equity transactions. Therefore, the entity would recognize any difference between the amount by which the noncontrolling interest is adjusted and the fair value of any consideration paid or received directly in equity attributable to the controlling interest (for example, additional paid-in capital).

26. The majority of respondents disagreed with that proposal and requested that the Board retain current practice for accounting for those transactions. Those respondents generally disagreed that noncontrolling interests are part of the equity of the consolidated entity. Therefore, they view transactions with noncontrolling shareholders like transactions with other third parties that should result in recognizing gains or losses in income. For example, Citibank (CL #14) stated that “[w]e disagree with the proposed accounting for changes in ownership interest in a subsidiary. We view these as transactions with third parties and therefore disagree with their being account[ed] for as equity transactions.”

27. BDO Seidman (CL #25) stated that this “particular part of the proposal is the most troublesome to us, because it fails to hold management accountable for the costs incurred in acquiring a business and requires part of the cost, as well as part of the gain or loss on disposal, to permanently bypass the income statement.”

28. Respondents that agreed with the proposal generally supported the concept that noncontrolling interests are part of the equity of the consolidated entity. Most of those respondents did not provide any additional reasons for their support.

Loss of Control of Subsidiaries

29. Question 5 in the Notice asked respondents if they agreed with the proposal that when an entity loses control of a subsidiary, any retained investment in the former subsidiary would be remeasured to its fair value in the consolidated financial statements. The gain or loss resulting from this remeasurement would be recognized in income of the period.

30. Most respondents disagreed with the proposals for accounting for a loss of control of subsidiaries. Respondents generally disagreed for the same reasons they disagreed with the proposals for accounting for changes in ownership of a subsidiary. Additionally,

many respondents disagreed because they believe the principles for revenue and gain recognition in the conceptual framework would not be satisfied. The following comments were representative of those respondents that disagreed.

a. Deloitte (CL #7) stated:

We believe that a disposition of a part of a subsidiary that results in loss of control is a significant economic event requiring recognition of any gain or loss in income in the period in which the transaction occurs. However, we do not believe that a retained noncontrolling equity investment should be remeasured to fair value. In a historical cost model, no event has occurred that warrants such a remeasurement. Therefore, we do not agree that the gain or loss resulting from the disposition should include any fair value remeasurement gain or loss related to the retained equity interest.

Any remaining noncontrolling equity investment should be accounted for under the provisions of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, or FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

b. PwC (CL #12) stated:

No. We do not believe that a retained investment in a former subsidiary should be re-measured as there is no exchange transaction with an unrelated third party involving the interest that has been retained. Re-measuring the retained investment loses the record of the invested capital in that investment along with the basis for evaluating the performance of that investment.

c. KPMG (CL #33) stated:

We disagree with the Boards' proposal that loss of control should give rise to a remeasurement of the remaining investment at fair value with the adjustment recognized in profit or loss. We believe that upon the loss of control, gains and losses should be recognized for the portion of the investment that is sold. Any remaining investment would retain its carrying amount at that date and would be accounted for subsequently in accordance with appropriate existing GAAP (e.g., equity method investment, available-for-sale security, trading security).

We agree that loss of control of a subsidiary is a significant economic event. However, we do not believe that such an event, in and of itself, justifies the recognition of revaluation gains and losses.

d. Grant Thornton (CL #8) stated:

We agree with remeasurement to fair value for the purpose of balance sheet recognition of the retained investment. However, we do not believe it is appropriate to recognize the difference between the fair value and the carrying amount of the retained interest in income because the amount has not been realized through an exchange with an outside party. We think these transactions are analogous to unrealized gains and losses on available-for-sale securities and therefore it would be more appropriate for them to be recorded in other comprehensive income until disposal of the retained interest

31. Some respondents [an individual (CL #17), ICU Medical, Inc. (CL #41), and JPMorganChase (CL #43)] disagreed that a gain should be recognized on a retained investment but stated that if a loss is indicated on the retained investment, an impairment may exist. In that case, an impairment test should be performed in accordance with GAAP.

32. The few respondents that agreed with the proposed accounting for a loss of control of subsidiaries generally did not provide any additional comments, but they generally agreed that noncontrolling interests are equity. Following are some additional comments made by those respondents.

- a. Credit Suisse Group (CL #11) stated that “[w]e believe that the change in character from a controlled entity to either an equity method investment or a cost method investment is sufficient to support recognition of a gain or loss.”
- b. Students at Indiana University (CL #5) suggested a different alternative:

While we agree that the gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period, we do not agree with the proposed recognition of the total gain or loss associated with a loss of control. The gain or loss resulting from a loss of control consists of two components: (1) the portion associated with a reduction in ownership up to the last point where control may be maintained (e.g., 50.1%) and (2) the portion associated with a reduction in ownership below that point (e.g., 50%).

As UBS AG points out in its response to issue 8 in its comment letter to the October 2000 ED, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*, the Board requires different treatment of, in substance, the same transactions. The Board prohibits in paragraph 23 of the ED recognition of a gain or loss associated with a change in ownership if control is maintained and treats this transaction as an equity transaction. The Board, however, requires recognition of a gain or loss on the first component, described above, when the component is included in a total gain or loss resulting from a loss of control. Such different treatment of changes in ownership associated with a loss of control is internally inconsistent and conceptually improper. We, therefore, urge the Board to treat changes in ownership up to the last point where control may be maintained consistently (i.e., as equity transactions) whether the overall effect of the transaction is a loss of control or not.

Guidance for Single and Multiple Arrangements

33. Question 6 in the Notice asked respondents whether they agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement.

34. Many respondents did not specifically respond to this proposal. Of the respondents that did comment on this proposal, responses were varied.

35. Several respondents stated the guidance was necessary if the Board continues with the proposals in the ED. Some respondents thought this guidance should be part of a more comprehensive project and not just transactions within the scope of this ED.

36. Some respondents requested clarification, indicated the proposal is inconsistent with other guidance, or suggested the proposed guidance be expanded. For example, a few constituents suggested that more guidance was necessary for multiple arrangements spanning more than one reporting period.

37. Some respondents stated that the list of factors in paragraph 29 should not be all inclusive. For example, Grant Thornton (CL #8) stated:

...[t]he proposed Statement uses language that suggests that the criteria listed are both necessary and sufficient for determining whether a series of arrangements should be accounted for as a single arrangement. We note that there may be other factors that could be present that would indicate that a series of transactions are a single event. We also note that a company may be required by circumstances to sell a subsidiary in stages, perhaps with options to the acquirer to purchase additional shares that might or might not be exercised. The arrangement may be for strategic or operational reasons rather than to obtain a specific accounting treatment. Therefore, we suggest that the wording reflect that the list of factors be labeled as indicators instead of as conditions for considering multiple arrangements as a single arrangement.

Reporting Earnings per Share

38. Question 7 in the Notice asked respondents whether they agreed that earnings per share amounts should be calculated using only amounts attributable to the controlling interest in consolidated financial statements that include partially owned subsidiaries. This practice is consistent with how entities currently report earnings per share.

39. Many comment letters did not address the proposal for reporting earnings per share. However, nearly all of those that responded agreed that earnings per share data should be calculated using only amounts attributable to the controlling interest. Many respondents did not provide their rationale for supporting this proposal, but those that provided rationale gave the following reasons for their support:

- a. Including noncontrolling interests in the earnings per share calculation would be misleading, irrelevant, and confusing.

- b. The presentation of earnings per share information is for the benefit of the common shareholders of the parent.

40. Some respondents stated that the parent company focus for the calculation of earnings per share seemed confusing and contradictory to the economic unit concept proposed in the Exposure Draft. For example, Wells Fargo (CL #19) stated:

The significant modifications to financial statement disclosures that this proposed [S]tatement would require will be very confusing for most users of financial statements. This is particularly true for the proposed requirement that, consistent with today's practice, earnings per share be calculated and disclosed from the perspective of the common shareholders of the parent, while the proposed statement would also include a seemingly contradictory requirement that the net income reported in the income statement include net income for the entire economic entity, including the noncontrolling interests.

Disclosures

41. Questions 8 through 12 in the Notice asked respondents if they agreed with certain proposed disclosures. Most comment letters addressed some or all disclosure questions. It is not clear whether a non-response for all of the disclosure proposals or for certain disclosure proposals indicates support for the proposal or not.

42. In general, the majority of respondents stated the proposed disclosures were excessive and unnecessary if current practice is retained. Some constituents suggested that the Boards develop a disclosure framework in another project to reconsider the comprehensive nature of the additional disclosure requirements.

Disclosure of Certain Amounts in the Financial Statements and a Reconciliation of Changes in the Noncontrolling Interest

43. Question 8 asked if respondents agreed that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each that are attributable to the controlling and noncontrolling interests, should be required. Question 9 asked respondents whether they agreed that disclosure of the amounts attributable to the controlling interest should be required for (a) income from continuing operations, (b) discontinued operations, (c) extraordinary items, (d)

cumulative effect of changes in accounting principles¹, and (e) components of other comprehensive income. Question 10 asked respondents whether they agreed that a reconciliation of changes in the noncontrolling interest should be required.

44. For each of those proposed disclosures, the responses and types of respondents were consistent. The majority of respondents disagreed with the proposed disclosures based on the premise that financial statements should continue to focus on the parent company. Therefore, those respondents—mainly preparers and some accounting firms—believe the disclosures are irrelevant, unnecessary, costly, or complex. Some respondents echoed their concerns addressed in Question 3 related to disclosing comprehensive income attributable to noncontrolling interests.

45. Some respondents stated that although they disagreed with the some of the disclosure proposals, they believed certain proposals were necessary if the Board goes forward. For example, BDO Seidman (CL #25) addressed Question 8 by stating:

Today, the majority and minority shares of consolidated net income are transparently displayed on the face of the income statement. Under the proposal, the income statement no longer will display this information. Thus, the Board needs to introduce a new required disclosure to replace the lost information. In the context of the Board's proposal we agree that the proposed disclosure is useful, but we don't believe that the proposed disclosure is an adequate substitute for today's better accounting.

46. A minority of respondents agreed with the proposed disclosures but did not generally give reasons for their support. Those respondents generally consisted of academics, accounting firms, preparers, and accounting associations.

Disclosure of a Separate Schedule

47. Question 11 asked constituents if they agreed that a parent with one or more partially owned subsidiaries should disclose a separate schedule showing the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest in the notes to the consolidated financial statements.

¹ FASB Statement No. 154, *Accounting Changes and Error Corrections*, requires retrospective application, to the extent possible, for reporting a change in accounting principle. Therefore, the proposal to disclose the amount attributable to the controlling interest for the cumulative effect of changes in accounting principles is no longer relevant.

48. Most respondents disagreed with this proposal. Many disagreed on the basis that they do not believe that noncontrolling interests represent equity interests. Therefore, they believe that current practice should be retained. Other respondents that agreed that noncontrolling interests are part of consolidated equity disagreed with the proposal because they believed that disclosure of such a schedule was unnecessary for the following reasons:

- a. Many companies already report information about the effects of transactions with the noncontrolling interest on the controlling interest's equity in a statement of changes of equity or in the notes to financial statements. (IFRS filers and public companies are required to present this information.)
- b. The IASB has concluded that requiring a separate schedule is not necessary. Therefore, before issuing as a final standard, disclosure requirements should converge between the FASB and the IASB.

49. Grant Thornton (CL #8) expressed concern that "...requiring this disclosure implies another accounting model is also appropriate since it will enable users to recalculate net income by 'reclassifying' transactions recorded in equity as income."

50. A minority of respondents agreed that a separate schedule should be required. Some of those respondents did not provide reasons for their support. However, some respondents stated this proposed disclosure would provide relevant and useful information about the nature of changes in equity.

Additional per-share metric

51. Of the respondents that commented on this proposal, most disagreed that an entity presenting earnings per share data should also be required to disclose an additional per-share metric in the proposed separate schedule. The main reasons cited for disagreement were that the added EPS metric would be costly, burdensome, confusing, and add complexity to the financial statements. Some of those respondents did not believe the metric represented transactions that are results of the earnings process. In addition, a few respondents stated this requirement seemed inconsistent with the proposal that earnings per share should be calculated using only amounts attributable to the controlling interest.

52. AMG (CL #38) stated that "[t]his additional per-share metric should not be required. Alternatively, disclosure of this additional per-share metric could be required

only for companies that had previously accounted for SAB 51 gains and losses in the income statement.”

Disclosure on the Loss of Control of a Subsidiary

53. Question 12 asked whether respondents agreed that the disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required. Respondents expressed mixed views on this proposal. Constituents’ responses generally corresponded to their responses relating to the loss of control of subsidiaries. Those that agreed with the proposed accounting for the loss of control of subsidiaries generally agreed with this proposed disclosure. Those that did not agree with the proposed accounting for the loss of control of subsidiaries generally stated that the disclosure is irrelevant, costly, complex, or confusing.

Transition and Effective Date

54. Question 13 in the Notice asked respondents whether they agreed with the proposed transition requirements. The requirements in the ED would be applied retrospectively except for the following provisions, which shall be applied prospectively:

- a. The requirements for accounting for increases in a parent’s controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests) would not apply to increases that occurred before this proposed Statement is applied. If a parent’s ownership interest in its subsidiary increases after this proposed Statement is applied, that event shall be accounted for as an equity transaction, and the values of the subsidiary’s assets and liabilities in the consolidated financial statements shall not be changed. (paragraph 34(a) of the ED)
- b. Any gain or loss recognized for the loss of control of one or more subsidiaries before this proposed Statement would be applied shall not be adjusted retrospectively. Also, the carrying amount of any retained investment in a former subsidiary in which control was lost before application of this proposed Statement shall not be adjusted retrospectively. (paragraph 34(b) of the ED)

55. The proposed effective date for this proposed Statement would begin on or after December 15, 2006. The Notice did not ask respondents whether they agreed with the proposed effective date. However, many respondents commented on the effective date proposal as part of their response for transition or as a separate item. It is not always clear whether a respondent disagreed with the transition proposals based on the effective

date or retrospective application. Several respondents requested that the effective date of the final Statement be delayed due to the significant changes to current practice.

56. Respondents were split as to whether or not they agreed with the transition proposals. Constituents had the following views about the proposed retrospective application:

- a. Some respondents noted that the retrospective transition requirements would be difficult to apply, especially for entities with a substantial number of noncontrolling interests on their balance sheets [CL #12 and CL #19].
- b. Royal Dutch Shell (CL #35) asserted that because it could be impractical to apply many of the proposed changes on a retrospective basis, “they should all be applied prospectively, except to the extent that there is a change in the presentation of non-controlling interests.”
- c. JPMC (CL #43) stated that “[i]f 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).”

57. As stated above, paragraphs 34(a) and 34(b) of the ED describe circumstances in which provisions should be applied prospectively. Deloitte (CL #7) stated “that retrospective application of paragraphs 34(a) and 34(b) of the proposed Statement should be permitted, but only to the extent an entity could apply the provisions to all historical transactions (i.e., an ‘all-or-none’ retrospective application).”

Transition Requirements for Acquisitions of Noncontrolling Interests

58. Some respondents noted that the transition requirements would be difficult for entities with partially owned subsidiaries on their balance sheets at the time of transition. They noted that that the controlling interest’s stockholders’ equity would be artificially reduced when additional noncontrolling interest shares are acquired after the date the entity acquires the subsidiary. Some of those respondents are quoted below.

59. PwC (CL #12) stated:

Subsequent to the effective date of the standards, if the parent entity decides to purchase the non-controlling interest and the non-controlling interest has appreciated over time, the parent entity

may record a significant reduction in its equity which would not reflect any underlying economic event.

60. Citibank (CL #14) stated:

The impact [of the proposed accounting for changes in ownership interest in a subsidiary], when taken in conjunction with the proposed accounting in Business Combinations ED, would have absurd accounting results. Subsequent to recording 100% of the goodwill, purchases of additional stakes at prices different from the acquisition of a controlling stake, will reflect incorrect goodwill and carrying value of the subsidiary. Any gain or loss on account of the sale of a noncontrolling stake in a subsidiary would be accounted for as an equity transaction without the recognition of a gain or loss. This will lead to “accounting” gains/losses being different from economic gains/losses. It will also open up this area for potential abuses in timing and structuring of transactions with the objective of managing the recognition of gains or losses.

61. AMG (CL #38) stated:

...[i]f the Proposed Standard is adopted as currently drafted, the transition approach offered will not result in financial statements being presented on a comparable basis for business combinations consummated before the adoption of the Proposed Standard. For companies that acquire controlling interests in businesses, there will be a permanent difference in the method of accounting for acquisitions completed before and after January 1, 2007. This difference will make comparability of financial statements difficult for financial statement users.