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HARVEY KAPNICK  
CHAIRMAN

June 28, 1973

Financial Accounting Standards Board  
High Ridge Park  
Stamford, Connecticut 06905

Gentlemen:

We respectfully petition the Financial Accounting Standards Board to undertake a reconsideration of APB Opinions No. 16 and No. 17 in the near future. In our view, there is no subject that you could consider that is any more important to the long-range welfare of the business community and the interests of investors and other users of financial statements than proper accounting for business combinations.

We have reached the point in time when the application of the provisions of these Opinions by our clients results in an impossible and intolerable situation and one that is unsupportable on any sensible basis.

The question is not whether Opinions No. 16 and No. 17 are popular in the business community but whether the results from the application of those Opinions properly reflect the facts and can be supported as a fair presentation of what actually has occurred in a business combination.

We believe that the application of these Opinions in many cases has been inequitable and discriminatory as between companies, has had an adverse effect on our national economy as well as on individual companies, has been damaging to investors, and has produced misleading results for the users of financial statements.

Examples of the inequities and ridiculous results arising from these Opinions are virtually limitless. Our firm in 1972 prepared an 83-page printed book of interpretations of these Opinions for the guidance of our personnel in our practice. Since then hundreds of questions have been raised, many involving matters not dealt with even in this extensive set of interpretations. We are now revising and

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expanding this book, and a second edition is about completed. Those who do not have access to information that enables them to maintain constant contact with developments in this area are at a distinct disadvantage, and this must include many smaller accounting firms and their clients.

Opinions No. 16 and No. 17 were doomed to failure from the beginning. They were the result of compromises that were not based on any sound objectives, standards or concepts. They were the product of an ill-advised effort to patch up alleged abuses in existing practices by establishing a long list of rules that are inconsistent and unsupportable. This arises in part because an effort was made to draw arbitrary lines between forms of consideration in transactions (such as cash vs. stock) when such lines can have a huge effect on the results. Such arbitrary lines can only be enforced by many detailed rules that, in turn, lead to even more such rules, and this goes on endlessly.

Two examples of areas where Opinion No. 16 has proved to be particularly inequitable in practice are the two-year rules relating to subsidiaries and treasury stock.

Increasing concern is being expressed about acquisitions of business entities in the United States and elsewhere by companies in other countries in competition with U.S. companies. The accounting specified by Opinions No. 16 and No. 17 is not applicable to an acquiring company if it is based in a country other than the United States. Often the result is to provide a company outside the United States with an advantage when it is competing with a U.S. company for acquisition of another company. A disadvantage to a U.S. company could possibly occur, even if appropriate accounting standards in the area of business combinations existed in the United States. However, what is significant is that the U.S. standards are wrong as well as disadvantageous. Improved standards would place U.S. business in a better position because a proper reflection of the economic facts is certain to be preferable for everyone concerned in the long run.

We do not see how it will be possible for some of the Federal regulatory agencies to permit the adverse effects of these two Opinions to continue very long.

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Our firm is prepared to document our concerns and our views on this subject in whatever detail may be desirable.

The time available to correct this situation has been growing shorter for some time, and present conditions can be described as urgent. We realize that you are not responsible for what has occurred in the past. However, since you now have jurisdiction over this subject insofar as the accounting profession is concerned, we are requesting that you consider this matter and let us know what your decision is as to the course of action you propose to follow.

Very truly yours,

*Arthur Andersen Co.*

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