



# THE IRVINE COMPANY

Letter of Comment No: 152  
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February 13, 1996

Director of Research and Technical Activities  
Financial Accounting Standards Board  
File Reference 154-D  
401 Merritt 7  
P.O. Box 5116  
Norwalk CT 06856-5116

Subject: Proposed Statement of Financial Accounting Standards Consolidated Financial Statements: Policy and Procedures.

We agree with the proposed FASB that the control of an entity should be the significant criteria in determining whether an entity should be consolidated. Because of the multitude of different circumstances surrounding the structure, organization and ownership of an entity, we feel that the facts and circumstances of each entities' structure should be the key factor in determining control.

For example, when Irvine Apartment Communities Inc. (IAC), a publicly traded REIT on the New York Stock Exchange, was formed in December of 1993, IAC was allowed to consolidate its ownership interest in a limited partnership (even though IAC had only a 39% ownership of the partnership). The Securities and Exchange Commission determined that IAC should consolidate the partnership because IAC controlled the partnership. The significant control factors were as follows: IAC in its capacity as sole general partner was responsible for the active management of the partnership; IAC had voting majority on the partnerships board of directors; and IAC controlled the policies, capital, and operating budgets of the partnership.

As emphasized in the example above, we believe the proposed FASB should weigh the control of the entity as the most significant factor in determining consolidation and discourage the use of percentages as a way to determine control.

Our review of the proposed FASB also raised an issue that appears to be in conflict with current industry practice. Specifically, the FASB's intention is unclear under paragraph #27 regarding recording an entity at fair market value without allocating value to the noncontrolling interest. This paragraph appears to be in conflict with EITF #94-2, "*Treatment of Minority Interest in Certain Real Estate Investment Trusts*," which requires reallocation of equity between minority interest and shareholders equity based on percentage ownership, thus resulting in a portion of the fair market value of the entity being allocated to minority interest. Would the proposed FASB override EITF #94-2 and would it require restatement of minority interest?

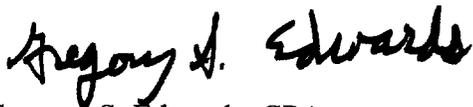
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In conclusion, we would like to emphasize our support of determining consolidation based on the control of the entity. We would like to stress that control factors should determine consolidation and discourage the use of percentages to define control.

Sincerely,



Gregory S. Edwards, CPA  
Senior Vice President and Controller  
The Irvine Company



Cheri Mahler Smetanka, CPA  
Director of Financial Reporting  
The Irvine Company