January 26, 1996

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Executive Vice President and
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Mr. Timothy Lucas
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

Letter of Comment No: 146
File Reference: 1082-154
Date Received: 2/5/96

Re: The Exposure Draft of a proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements Policy and Procedures" (the "Exposure Draft")

Dear Mr. Lucas:

We are pleased to have the opportunity to comment on the aforementioned Exposure Draft. As a holding company with various forms of investments in affiliates, we are interested in the issues addressed in the Exposure Draft.

We are supportive of several basic provisions of the Exposure Draft and welcome the clarification to existing generally accepted accounting principles. We agree that a controlling entity should consolidate all entities that it controls unless control is temporary. We are also supportive of the Board's proposed definitions of "control" and "temporary control".

However, we disagree with several positions of the Board with respect to consolidation procedures. Instead, we support the positions expressed by a majority of the respondents to the FASB Discussion Memorandum, "Consolidation Policy and Procedures." These positions are as follows:

Reporting Noncontrolling Interest in Subsidiaries

We support presenting the noncontrolling interest in a less-than-wholly-owned subsidiary in the statement of financial position between liabilities and equity, rather than as a component of equity as proposed by the Board. We also support presenting the noncontrolling interest in the consolidated statement of operations as a deduction in measuring net income, rather than separately presenting: (i) net income (including both controlling and noncontrolling interest); (ii) net income attributable to noncontrolling interest; and (iii) net income attributable to controlling interest.

We believe the following arguments are more persuasive than those supporting the Board's proposed position:

(a) Our position is the same as current prevailing practice. We are not aware of any problems caused by the use of this practice.

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(b) Noncontrolling interest in the net assets and income of a company does not represent the equity or the net income of the reporting entity.

(c) If readers wish to analyze financial information consistent with the Board's proposal, all financial data are available for them to do so.

(d) We fail to see how the proposed change improves financial reporting.

Accounting for the Acquisition of and Subsequent Sale of a Subsidiary

We support the parent company approach for accounting for purchases of investments in subsidiaries and changes in the parent's ownership interest. Our suggested position is consistent with that summarized in paragraphs 109 and 127 of the Exposure Draft, but which was rejected by the Board.

Again, we agree with the majority of the respondents who argued that the parent company method: (a) best reflects the parent's cost of the investment in the subsidiary; (b) views the transaction from that of the reporting entity; and (c) is the current prevailing practice that does not need to be changed.

We believe the method proposed by the Board could result in the recognition of income or loss in the statement of operations that is illogical. Please refer to Example One, attached to this letter.

Accounting for Changes in a Parent's Ownership Interest Versus Purchase by a New Owner

We question the logic of the proposed requirement that valuation of a subsidiary's assets and liabilities is determined on the first date when control is established, and such values are not adjusted if the parent subsequently increases its percentage ownership at a time when the assets and liabilities have different values.

For example, Conseco is a 24 percent investor, and the sole general partner in an LBO fund that acquires life insurance companies, rapidly builds their values, and sells the acquired companies to an insurance company operator. Because Conseco is the sole general partner, it controls the fund and the fund's controlled subsidiaries. Accordingly, control is established by Conseco at the time the fund acquires the target company.

Sometimes a subsidiary of Conseco will become the ultimate 100 percent owner of the target company by acquiring the 76 percent interest held by the non-affiliated limited partners. Because of the significant increase in value of the target company during the period it is owned by the fund, the values of the target company's net assets at the time the 76 percent portion is acquired may be significantly greater than at the time of acquiring the initial investment which resulted in the establishment of control. It seems absurd to account for the 76 percent portion of the investment (i) based on values which ignore the significant valuation change if the 76 percent purchaser is the original general partner, but (ii) based on amounts that fully reflect all current values if the 76 percent purchaser is a new owner. Please refer to Example Two, attached to this letter.

The proposed standard is based on the rationale that the purchase by the parent of the minority interest in a subsidiary should be accounted for in the same manner as the purchase and retirement of the parent's common stock (i.e., an equity transaction that has no effect on asset/liability book values or future earnings). But treating the transaction described in Example Two as an equity transaction seems inappropriate. We believe this is clearly a "business combination/purchase" transaction which should be reflected as such.

Retroactive Application

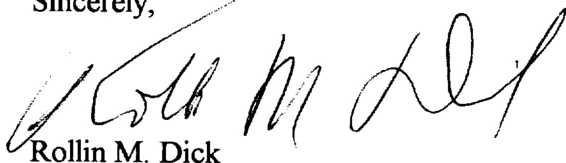
Conseco has been actively acquiring and disposing subsidiaries, including several transactions involving step-acquisition accounting. We entered into these transactions based on the economic benefits that would accrue to our shareholders. For example, at times we find we can increase the value of the investment held by our shareholders by selling partial ownership interests in our subsidiaries and redeploying the capital elsewhere where returns are higher. At other times, our analysis of all available acquisition opportunities indicates that the best value for our shareholders is to increase our ownership interests in companies in which we already have significant ownership interests. Fortunately, current accounting standards reflect these transactions in a manner which matches the economic basis of our decision making.

If the proposed standards were to be adopted, it would be most unfortunate. Financial statements would no longer record the economic substance of these transactions. Further, if retroactive application were required, it would change all aspects of our prior period financial statements - including shareholders' equity and net income for the past several years. Such restatement would require monumental efforts.

It seems inappropriate, for generally accepted accounting principles to require transactions to be reflected in a manner that does not match economic reality. However, if the exposure draft were adopted, we (and we believe many others) would be forced to structure future transactions differently. In addition, the requirement to retroactively apply the provisions of the Exposure Draft, in effect, changes the accounting rules for transactions that have already occurred. Accordingly, companies would be penalized for past actions that were made in good faith relying on existing rules. In fact, doesn't the U.S. Constitution prohibit this treatment of our citizens?

The financial market generally reacts negatively when a company is required to restate its financial statements. Retroactive application and restatement of financial statements as required by this proposed Exposure Draft could depress the market value of our company and others that are similarly situated. While we recognize that the proposal permits exceptions to retroactive treatment in defined situations, we believe that, if the standard is adopted, it should <u>prohibit</u> retroactive application. Furthermore, for the same reason cited as to the change of rules after a transaction is already completed, this Exposure Draft should not be applicable to the completion of step-acquisition transactions that commenced prior to its effective date.

Sincerely,



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Example One

Accounting for purchases of investments in subsidiaries and changes in a parent's ownership interest under the proposed Exposure Draft

Parent Co. (a company with total cash of $1,000, no other assets and no liabilities) acquires 40 percent of the equity (but 100 percent of the voting stock) of Acquired Corp. (a company with total cash of $200, no other assets and no liabilities) for $100. For simplicity, assume no undistributed future income of Parent Co. and Acquired Corp. At the acquisition date, Parent Co.'s consolidating balance sheet would be as follows:

	Parent Co.	Acquired Corp.	Consolidating Entries	Parent Co. Consolidated
Cash	$ 900	$200	$ -	$1,100
Investment in Acquired Corp.	100	-	(100)	-
Goodwill	-	-	20	20
Total assets	$1,000	$200	$(80)	$1,120
Minority interest	$ -	$ -	$ 120	$ 120
Other equity	1,000	200	(200)	1,000
Total equity	$1,000	$200	$ (80)	$1,120

One year later, Parent Co. purchases the remaining 60 percent interest in Acquired Corp. for $200. At this date, Parent Co.'s consolidating balance sheet would be as follows:

	Parent Co.	Acquired Corp.	Consolidating Entries	Parent Co. Consolidated
Cash	$ 700	$200	-	$900
Investment in Acquired Corp.	300	-	(300)	-
Goodwill	-	-	20	20
Total assets	$1,000	$200	$(280)	$920
Minority interest	$ -	$ -	$ -	$ -
Other equity	1,000	200	(280)	920
Total equity	$1,000	$200	$(280)	$920

Now assume that one year later, Parent Co. sells its entire investment in Acquired Corp. for $240. As summarized below, Parent Co. will recognize a $20 gain, despite having realized a $60 economic loss.

	Recorded Basis	Economic Basis
Initial 40 percent purchase	$100	$100
Purchase of remaining 60 percent	200	200
Less purchase price in excess of minority interest value	(80)	-
Basis	220	300
Sales price	240	240
Gain (loss)	$ 20	$(60)

We believe that the Parent Co.'s ownership of a subsidiary should be viewed exclusively from the perspective of the parent and the above economic basis should be reflected in income. However, if you conclude that the subsidiary should be viewed from the perspective of the consolidated entity, and that purchases/sales of stock of the subsidiary are equity transactions like purchases/sales of stock of the parent, then it seems inconsistent to recognize any gain/loss on any purchases/sales of stock of the subsidiary.

Example Two

Accounting for Changes in a Parent's Ownership Interest
Versus Purchase by a New Owner

The following hypothetical example (which is a combination of facts from several actual transactions) illustrates the illogical results that could occur on the parent's financial statements as a result of this Exposure Draft:

Date target company initially acquired by LBO fund (control date for general partner)	November, 19x1
Market capitalization of target company in November, 19x1:	
Debt	$500
LBO Fund investment:	
Limited partners	76
General partner (representing 24 percent ownership of target company by the parent)	24
Total	$600
Date limited partners decide to sell their 76 percent interest in target company	May, 19x3
Market capitalization of acquired company in May 19x3:	
Debt	400
Common equity at market	1,500
Total	$1,900
Book value of target company as included in parent's balance sheet in May 19x3 (reflecting original investment plus subsequent undistributed earnings):	
Net assets	$ 300
Minority interest	228
Parent's interest	72

The proposed standard would cause significantly different results for the purchaser of the 76 percent interest held by the limited partners depending on whether the purchaser was an independent party or the existing "control" partner.

If the purchaser was the existing control partner, book values of net assets would not change and the excess of the purchase price of the 76 percent interest over the minority interest book value or $912 (76 percent of $1,500 or $1,140 less $228), (i) would be charged immediately to shareholders' equity on the consolidated balance sheet and (ii) would never be recorded as a charge to income on future consolidated income statements. This gives the acquirer an opportunity to, in effect, write off the cost of valuable assets immediately against equity, thereby significantly increasing future earnings (albeit at the cost of an immediate decrease in shareholders' equity). This result seems contrary to specific prohibitions of such write offs in existing standards. It presents an opportunity to purchase net assets without ever reflecting the cost of a portion of such net assets in income.

However, if the 76 percent interest were acquired by a new control party, the future income statements would reflect the entire cost of the net assets acquired (i.e. through amortization of goodwill, depreciation of fixed assets, expensing inventory, etc.).

Surely the purchase of 76 percent of an entity is more accurately described as a "business combination/purchase" than as a "retirement of outstanding shares" and should be accounted for accordingly.