

Letter of Comment No: 140
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Chevron

January 19, 1996

Chevron Corporation
575 Market Street
San Francisco, CA 94105-2856

D. G. Henderson
Vice President and Comptroller

Mr. Timothy S. 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

Dear Mr. Lucas

Chevron appreciates the opportunity to comment on the Exposure Draft, *Consolidated Financial Statements: Policy and Procedures*. The proposed policy will require a parent company to consolidate all entities that it effectively controls, irrespective of the economic interest in those entities. While we agree with the Board's efforts to clarify financial reporting issues which cause inherent distortions, we do not feel the sweeping changes proposed in this exposure draft represent clarification. Indeed, given the subjective nature of determining what constitutes "effective" control, we also question whether this proposed standard will facilitate comparability of financial statements. Consequently, we do not support the Board's proposed consolidation policy.

We are reasonably satisfied with the current body of pronouncements which constitute generally accepted consolidation policy. In particular, we agree with the concept of consolidation based on a controlling voting interest, as embodied in FAS94, *Consolidation of All Majority-Owned Subsidiaries*. This concept produces financial statements which present results of operations on an ownership basis, including previously excluded results of "nonhomogeneous" operations. We believe that this presentation is of greatest benefit and importance to the shareholders of the reporting entity, and other users of the financial statements. In contrast, financial statements reported on the basis of "effective" control present results of operations, cash flows and assets where some current and future economic benefits do not accrue to the shareholders. We must question whether a consolidation policy based merely on effective control represents clarification in financial reporting, particularly where effectiveness may be subject to change.

We also feel that the notion of control as the premise for consolidation has led to somewhat illogical accounting conclusions, when viewed in a broader context. For instance, the Board has proposed that changes in a parent's ownership interest of a subsidiary, but where control has not changed, would be accounted for as an equity transaction with no gain or loss being recognized.

We believe that a sale of any economic interest to a third party is the culmination of the earnings process, requiring recognition of the resultant gain or loss.

Finally, this proposed statement may have a significant impact on the preparation of consolidated financial statements, particularly in a determination of which entities are affected and in underlying procedures, resulting in additional ongoing costs of compliance. We question how much benefit would be derived, if any, particularly when there has not been any widespread expressed need for change from financial statements based on current practices. We would urge the Board to reconsider its proposals within the context of the current body of work.

Sincerely,

A handwritten signature in black ink, appearing to be "P. B. Herde", written in a cursive style with a long horizontal stroke at the end.