

Letter of Comment No: 135
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Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 154-D

Dear Mr. Lucas,

The CIT Group, one of the nation's largest asset based lenders, is pleased to have this opportunity to present to the Board our comments concerning the recent Exposure Draft of a Proposed Statement of Financial Accounting Standards entitled "Consolidated Financial Statements: Policy and Procedures".

We do not support the Exposure Draft and respectfully request that the Board withdraw this proposed standard for the following reasons:

1. The predominant emphasis of "effective" control over "legal" control in the decision to consolidate will ultimately result in the consolidation of an investee by an investor who shares in an immaterial percentage of the investee's risks/rewards; this contrasts sharply with the original intent of the project. In addition, application of "effective" control will require subjective interpretation and will most assuredly convolute, rather than improve, financial reporting to shareholders, creditors and other resource providers. Consolidation should be required when an investor both exercises control and participates materially (greater than 50%) in the risks/rewards of an investee.

2. The proposed statement requires the recording of minority interest as a component of equity (a shift from the "parent company" concept of consolidation to the "entity" concept). Use of the "entity" concept exaggerates the legal composition of a parent-subsidiary relationship, as minority (noncontrolling) shareholders of a consolidated entity cannot exercise ownership control over either the subsidiary or the parent. Shareholder's equity should reflect only the interest of parent company shareholders; minority interest should be recorded as a liability.

3. Application of the proposed statement will result in the artificial dilution of two widely recognized financial ratios; return on assets (ROA) and return on equity (ROE). Attenuation of ROA will occur via the consolidation of unowned (minority investment) assets. ROE will be negatively affected through the inclusion of minority interest as a component of shareholder's equity.

4. The proposed one year limit on "temporary control" will result in the forced consolidation of otherwise transitory investments. Within financial service institutions, foreclosures and/or workouts may protract temporary holding periods beyond one year due to legal, operational and market considerations. Such institutions do not retain control for reasons of profit, but rather to ensure prudent liquidation and to maximize value. From a practical standpoint, the "temporary control" window should be extended to a minimum of three years; if control exists beyond that point, retroactive restatement would be appropriate.

Once again, we are grateful for the privilege to comment and would be happy to further discuss our position. Should the Board so choose, I can be reached at (201) 740-5260.

Very truly yours,



Vincent L. Mollica
Vice President/
Accounting Policy Officer

cc: J. M. Leone
W. J. Taylor