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January 10, 1996

Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
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Letter of Comment No: 106
File Reference: 1082-154
Date Received:

1/18/96

Dear Sir/Madam:

We are pleased to submit our comments to you on the Exposure Draft on Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements: Policy and Procedures (the "ED"). While we appreciate the Board's efforts in this regard, we believe that adoption of the ED, as proposed, may result in the unwarranted consolidation of many entities. A discussion of our comments follows.

Definition and Operationality of Control

The ED defines control as "...power over (an entity's) assets - power to use or direct the use of the individual assets of another entity in essentially the same ways as the controlling entity can use its own assets." This definition, in conjunction with the proposed guidance in paragraph 14 on effective control (i.e., "...certain circumstances make (effective control) existence probable and therefore able to be presumed in the absence of evidence to the contrary"), is extremely broad and will unquestionably result in the unwarranted consolidation of many entities. Based on our experience, particularly with international investments, control may also depend on factors other than those cited in paragraph 14. While we do not disagree with the Board's consideration of the importance of effective control, other factors, such as the political or economic environment in which the business is conducted, the existence of any uncertainties that may negate control, should similarly be considered. A provision that requires consideration of these factors should be incorporated within the proposed guidance.

Also, as companies continue to acquire non-U.S. operations and enter into joint venture agreements, our concern is that the proposals in this ED may not promote the comparability and consistency of financial statements. After considerable internal due process and discussion, it is our position that both control and significant economic interests are needed to effect a consolidation. We urge the Board to reconsider the definition of control, with a view toward providing flexibility in the proposed framework, depending on the specific facts and circumstances of the investment.

Consolidation Policy - Temporary Control

The ED proposes that: "A controlling entity shall consolidate all entities that it controls unless control is temporary at the time that entity becomes a subsidiary. Once a subsidiary is consolidated, it shall continue to be consolidated until the parent's control ceases to exist."

Given our comments above on control, we would disagree with the proposed policy and believe that ownership of a significant economic interest should be incorporated in the policy. We commend, from a practical standpoint, the proposed latitude to the one-year rule in determining "temporary" control.

Reporting Noncontrolling Interest in Subsidiaries

Balance Sheet Presentation

The ED proposes that minority interest, or "noncontrolling interest in subsidiaries" be reported as a separate component of equity. The proper classification of minority interest has long been an issue, and its reporting, based on our research, is extremely diverse in practice. We concur with the Board's conclusion that a noncontrolling interest does not meet the definition of a liability. Further, we concur with the Board's view that consolidated financial statements should represent a broader perspective of a reporting entity. Provided noncontrolling interests are clearly labeled, there is no need to establish a new element of, or separate section within, the financial statements for minority interest, and therefore, agree with including minority interest as a separate component of equity.

Income Statement Presentation

The proposal to effectively show a higher consolidated net income, followed by a presentation of net income attributable to the noncontrolling and controlling interests is a departure from conservative methods of reporting as it would result in reporting higher net income. Net income, as currently understood by financial statement preparers and investors, represents income attributable to the controlling party.

This approach appears contradictory to the balance sheet presentation of minority interests. In our opinion, the presentation of controlling and noncontrolling interests' shares of net income would be more meaningful and less subject to misunderstanding, in a footnote, rather than on the face of the income statement, as currently proposed. The proposed presentation and earnings-per-share requirements could result in confusion rather than clarification.

Changes in a Parent's Ownership Interest in a Subsidiary

The ED would require that changes in ownership interests be accounted for as equity transactions, thus precluding gain or loss recognition to the income statement. We agree that, generally, gains or losses should not be recognized to the income statement on the sale of subsidiary stock as the controlling interests in subsidiary stock represent equity.

Conforming Accounting Policies and Fiscal Period

The ED emphasizes that subsidiary financial information should cover the same fiscal period as its parent's information unless conformity is not practicable. Goals of efficient, timely and accurate reporting will be hindered by this requirement, and in our view, conformity will most often be impractical. While we agree that the three-month window currently permitted under ARB 51 is no longer necessary, some accommodation or latitude in reporting should be permitted.

Effective Date

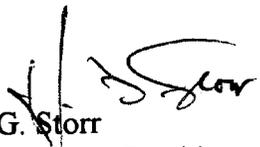
Due to the encompassing nature of this proposal, a final evaluation period of one year from the standard's issuance date would be reasonable. We do

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concur with the Board's plan to coordinate the effective dates of this proposal and of the project on business segment disclosures.

We would be pleased to discuss our comments with you.

Very truly yours,


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Executive Vice President and
Chief Financial Officer

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