

Public Service
Electric and Gas
Company

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**FASB EXPOSURE DRAFT (ED) - "CONSOLIDATED FINANCIAL STATEMENTS:
POLICY AND PROCEDURES"**

Public Service Enterprise Group Incorporated (Enterprise) is pleased to submit its comments concerning the Financial Accounting Standards Board's (FASB) "Consolidated Financial Statements: Policy and Procedures" ED. Enterprise is an exempt public utility holding company and the parent of Public Service Electric and Gas Company, one of the largest combined electric and gas utilities in the United States.

Enterprise continues to support the Parent Company Concept as the appropriate form of accounting for consolidation of parent and subsidiary business entities.

We support Accounting Research Bulletin No. 51 (ARB No. 51) "Consolidated Financial Statements", which states that control and majority ownership are the essential elements required for the consolidation process. We concur with ARB No. 51 that consolidation is necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling interest in the other companies. If an entity has not established ownership of more than fifty percent (50%) within a business enterprise, justification for consolidation is not present. We continue to believe that majority ownership coupled with control are necessary for consolidation.

An earlier Discussion Memorandum (DM) for this project established the following definition for "Control":

" Control is the power of one entity to direct or cause the direction of the management and operating and financing policies of another entity."

This ED sets forth the following as a Consolidation Policy:

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

The DM established a foundation for consolidation with the proposed definition; this ED solidifies the purpose of Consolidated Financial Statements with the establishment of the consolidation policy.

The ED states that control may be attained in different ways that fit into two general categories: legal control and effective control. Enterprise concurs with the definition of legal control as presented within the ED.

Enterprise has in its past responses, and continues to maintain the position, that control should always be based upon facts, not presumption. We further stress that only **facts** should be assessed in each transaction in order to determine if consolidation is appropriate. The ED states that the existence of effective control is often difficult to identify, but certain circumstances makes its' existence probable. We do not support this criteria for establishment of control. Absent legal control, the issue of effective control will result in inconsistent application and misinterpretation among the shareholders of the parent company and its subsidiaries. Enterprise maintains that control should be based on facts, not presumption.

Enterprise agrees with current accounting literature which establishes the recognition of a gain/(loss) when a parent sells stock in a subsidiary. This accounting is consistent with the parent company approach to consolidated financial statements, which Enterprise supported in a previous comment letter to the FASB. A subsidiary is an extension of the parent. Thus, the transaction should be viewed as if the same result would have occurred had the parent performed the event.

The proposed ED would require a parent and its subsidiaries to apply a consistent accounting policy for similar transactions or events unless Generally Accepted Accounting Principles (GAAP) permit a single entity to use different accounting methods for the same type of transaction or event. Enterprise believes that this criteria should be permitted, not required. We believe the fact that enterprises within a consolidated group are organized as separate legal entities often implies that their activities differ significantly and that different accounting policies may best reflect the results of their individual activities. The parent has an obligation to its shareholders to select the most appropriate accounting policy for each of its subsidiaries provided that the policy is permitted by GAAP and is adequately disclosed.

Enterprise appreciates the opportunity to respond to this ED and contribute to the standard setting process. We hope our comments will be useful in evaluating the issues surrounding the consolidation process.

