

Letter of Comment No: 94 File Reference: 1082-154

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Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
Norwalk, CT 06856-5116

Subject:

Proposed Statement of Financial Accounting Standards "Consolidated

Financial Statements: Policy and Procedures.

Dear Mr. Lucas.

This letter is submitted by BANC ONE CORPORATION (BANC ONE) in response to the invitation to comment on the Proposed Statement of Financial Accounting Standards "Consolidated Financial Statements: Policy and Procedures" (the "Consolidation Exposure Draft").

BANC ONE, with assets of \$90.5 billion at December 31, 1995, is a bank holding company headquartered in Columbus, Ohio. BANC ONE now operates 59 banks with 1,558 offices in Arizona, Colorado, Illinois, Indiana, Kentucky, Louisiana, Ohio, Oklahoma, Texas, Utah, West Virginia and Wisconsin. BANC ONE also owns several additional corporations that engage in data processing, venture capital, investment and merchant banking, trust, brokerage, investment management, equipment leasing, mortgage banking, consumer finance and insurance.

We appreciate the opportunity to submit comments and understand that the Board undertook this project to address issues encountered due to the lack of definitions of the terms control of an entity and temporary control and procedures for preparing consolidated financial statements; however, it is not clear from our experience that a significant need for new guidance exists in current practice (which appears to be acknowledged by the Board in paragraph 51 of the Exposure Draft which states that it is "...not expected to add significantly to the number of entities to be consolidated....").

While the Consolidation Exposure Draft provides a framework to assess control and a more comprehensive definition of control and temporary control, we believe it is substantially more subjective than the framework provided by current accounting principles and will result in differing interpretations, inconsistent applications in assessing

the existence of "control" and significant implementation issues. Current consolidation accounting principles as outlined in ARB 51 and SFAS 94 provide a measurable framework, percentage of ownership, as the primary consideration in determining the appropriateness of consolidation. This primary consideration creates a presumption of control and consolidation of a majority owned subsidiary that can be overcome given an evaluation of the relative facts and circumstances.

We believe the subjectivity in assessing the existence of "control" as broadly outlined in paragraph 14 of the Consolidation Exposure Draft will result in inconsistent application due to the diversity and complexity of many parent and subsidiary relationships. For example, we believe paragraph 14(c), which states that a presumption of control is created when an entity has a unilateral ability to obtain a majority voting interest through ownership of securities or other rights that may be converted into a majority voting interest, will be, particularly difficult to implement in practice. We believe the potential to obtain control in the future generally is not an indicator of current control and typically requires some action or occurrence before control can be exercised. In practice, it may be difficult to measure the value of stock options in a privately held company and assess whether risks assumed are in excess of expected benefits when the stock is not actively traded. For publicly held companies, changes in stock prices based upon a variety of factors may make it more beneficial or detrimental to convert options from one period to the next. We believe such changes could result in the determination that "control" exists in one year and not in the next based upon an interpretation of paragraph 14(c); and, as a result, consolidation of an entity in one year and not in the next. We do not believe that such a result would represent an improvement in the financial information presented to shareholders and creditors.

We believe that inconsistencies between paragraph 14(d) of the Consolidation Exposure Draft and conclusions reached in the Exposure Draft of the Proposed Statement of Financial Accounting Standards "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (the "Asset Transfer Exposure Draft") should be clarified relative to qualifying special purpose entities (SPEs). Paragraph 14(d) of the Consolidation Exposure Draft appears to be in conflict with the notion of asset transfers to qualifying special purpose entities outlined in paragraphs 9(b) and 23 of the Asset Transfer Exposure Draft.

We believe there may be additional implementation difficulties in measuring whether the expected costs exceed the benefits of assets assumed in the dissolution of an entity as outlined in Paragraph 14(e). For example, a financial institution may have a real estate loan in default that is collateralized by a majority of the real estate company's stock. The financial institution may have the ability to foreclose on the loan and take control of the real estate company; however, it may be more beneficial to the bank in the long-term to work out the loan with the creditor because of the expertise required in operating the real estate company. We believe the end result under the Consolidation Exposure Draft would

be consolidation of the real estate company's financial statements by the financial institution which would be of little benefit to the shareholders of the financial institution or to the minority interest holders in the real estate company.

If the Board does decide to implement the requirements of this exposure draft, we believe the following issues should be addressed:

- A. We believe the definition of temporary control as one year as outlined in paragraph 16 is too restrictive. A review of facts and circumstances would be more appropriate for each situation to determine if control is temporary. For example, an entity assumed in bankruptcy may take an indefinite period to work out credit problems and the controlling entity cannot assuredly predict how long it shall temporarily control it. It may have control over the entity's assets to dispose of them; however, there may be no intent to hold the assets beyond the time it takes to dispose of them.
- B. We believe that a parent company that does not own over 50 percent of the voting stock of a subsidiary usually does not have the power to control an entity's assets in accordance with its desire. However, if an entity is required to consolidate when owning less than 50 percent under the Consolidation Exposure Draft, we believe consolidation should be precluded if a parent's ownership falls below some minimal level of ownership. The Board should establish a minimal level of ownership, such as 20 percent, as part of the final draft.
- C. We do not believe display of minority interest as a separate component of equity is preferable to current practice because the minority interest is in no way equity of the parent. This minority interest is not available to the shareholders of the consolidated entity whose financial statements are being prepared and could mislead financial statement users if included in equity. We believe that the current predominant practice of displaying minority interest between liabilities and equity is the preferable financial statement treatment. This "quasi" equity presentation is the most accurate reflection of the noncontrolling interest as being neither a liability or equity and is more easily understood by most financial statements users. We agree with the Board that minority interest does not fit the traditional definition of a liability since there is no obligation to provide services or transfer assets.

Finally, while we are not in a position to comment on how the Consolidation Exposure Draft affects the accounting for non-profit organizations; intuitively we believe the accounting principles applied to non-profit entities should be consistent with those applied to for-profit entities.

In summary, we believe the current practice of consolidating all majority-owned subsidiaries is effective and provides for an evaluation of the facts and circumstances in

the determination of those minority or majority owned entities that should or should not be consolidated. We are concerned with replacing majority ownership as the primary consideration in determining consolidation with a more subjective and judgmental control concept that could result in inconsistent application, implementation problems and provide no additional benefit to financial statement users. While we are unaware of significant issues in current practice, we believe it may be preferable to provide additional guidance to correct those specific issues under the current consolidation framework rather than dealing with the inconsistent application and implementation issues.

We appreciate your consideration of our views, and would be glad to discuss these issues further at your convenience.

Sincerely,

William C. Leiter

Senior Vice President and Controller

William C Leiter