



1515 Wilson Boulevard, Arlington, Va. 22209-2469  
Telephone (703)841-8400, Fax (703)841-8406

**James P. Lavin**  
Chair

**Accounting Advisory Council**  
Comptroller and CAO  
Delmarva Power & Light Company  
P.O. Box 231  
Wilmington, Delaware 19899  
(302) 429-3359

Director of Research  
and Technical Activities  
Financial Accounting Standards Board  
File Reference No. 154-D  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Sir:

The American Gas Association (A.G.A.) is pleased to submit its comments concerning the Consolidated Financial Statements: Policy and Procedures. The A.G.A. is a trade association composed of about 300 natural gas distribution, transmission, gathering and marketing companies in North America, which together account for more than 90 percent of the natural gas delivered in the United States. In addition, 39 natural gas organizations from countries around the world participate in A.G.A.'s international program.

#### Statement of Position

The A.G.A. believes that legal control, as evidenced by majority ownership, is a necessary condition for consolidation of stock investments. This position is consistent with the position stated in its comment letter to the Financial Accounting Standards Board dated July 14, 1992 on the Discussion Memorandum, Consolidated Policy and Procedures and its December 16, 1994 response on the Preliminary Views on Major Issues Related to Consolidation Policy.

The A.G.A. believes that majority ownership of the legal right to economic benefits from a controlled entity is necessary for consolidation of equity investments. While indicators of effective control might in certain circumstances provide evidence of legal control, the A.G.A. believes that the effective control criterion will not provide consistent support for the existence of the availability of economic benefits to the parent company. Absent legal control, the subjectivity of effective control will result in inconsistent application and confusion among the primary users of financial statements, the shareholders of the parent company and its creditors.

A.G.A. Houston Office  
1600 Smith Street, Suite 1129, Houston, Texas 77002  
Telephone (713)654-7520 Fax (713)654-5126

A.G.A. Laboratories  
8501 East Pleasant Valley Road, Cleveland, Ohio 44131-5575  
Telephone (216)524-4990 Fax (216)642-3463

January 16, 1996

Letter of Comment No: 86  
File Reference: 1082-154  
Date Received: 1/17/96



Atlanta 1996  
Official Sponsor  
1996 Olympic Games

Regarding the reporting of an acquisition of a subsidiary, the A.G.A. believes that the parent company approach provides the most consistent information to shareholders and creditors and best presents the actual cost of the parent company's or controlling interest's investment in the subsidiary. Consistent with the parent company approach, the A.G.A. believes that minority interest is neither a liability nor equity of the parent company and should continue to be displayed separately between liabilities and equity in the parent company's balance sheet. In conjunction with this view, the A.G.A. believes the appropriate presentation of minority interest in the parent company's income statement is as a deduction to arrive at consolidated net income. The A.G.A. believes this because, under the parent company approach, consolidated net income represents income attributable to the controlling interest. Additionally, A.G.A. believes that only the portion of intercompany items attributable to the parent should be eliminated since the noncontrolling interest is viewed as a third party.

In our previous responses, the A.G.A. expressed its belief that consolidated financial statements present, primarily for the benefit of the parent company shareholders and creditors, the financial position and results of operations of a reporting entity that comprises the parent and its subsidiaries. The A.G.A. believes that only when legal control (majority ownership) is required for consolidation of a corporation is there a consistent basis for consolidation accounting and reporting.

The A.G.A. appreciates the opportunity to contribute to the standard-setting process and hopes that its views will be useful to you in your deliberations.

Very truly yours,

A handwritten signature in cursive script that reads "James P. Lavin".

James P. Lavin

JLP:djp