

BATTLE MOUNTAIN GOLD COMPANY

Letter of Comment No: 77  
File Reference: 1082-154  
Date Received: 1/16/96

R. DENNIS O'CONNELL  
VICE PRESIDENT, FINANCE  
CHIEF FINANCIAL OFFICER



January 12, 1995

Financial Accounting Standards Board  
File Reference 154-D  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

**RE: Proposed Statement: Consolidated Statements**

Dear Sirs & Mesdames:

I have reviewed your recent Exposure Draft dated October 16, 1995 on the above issue. I am especially concerned with the criteria related to determination if "control" exists as expressed in paragraphs 10-15 and Appendix B.

In general, I believe your presumption of control is too strong and incorrect. To presume a single entity may be misleading to general financial statement users, but this principle of control has implications beyond the consolidation issue. One particular area with which I am concerned is the accounting for business combinations under the pooling-of-interests method as described under APB16. As you will appreciate, a definition of control which is too broad will impede the application of pooling-of-interests by APB16 paragraph 46a. In gold mining, market valuations are based on minerals in the ground, future discovery potential and speculation of the future price of the gold. Market valuations are generally a multiple (1.4 to 2.0 x) of the projected cash flows of operating properties and identified prospects, and appear to overlook administrative and exploration expenditures. This may not seem logical to some, but it has been the way of valuations in our industry for a considerable period of time. I believe it represents a premium placed on access to precious metals. Pooling is the preferable and practical way to account for combinations when valuations exceed projected cash flows. Purchase accounting leads to several dead-end lines of logic, such as SFAS 121 considerations. For our industry especially, purchase accounting has inhibited the ability to achieve efficiencies to be gained by the merging of companies, which would then be for the benefit of our shareholders.

In general, the determination of "effective control" needs far more bright-line tests than are suggested in paragraph 14. When you stipulate that control is "probable and therefore able to be presumed", the standard, if one is trying to demonstrate autonomy as required

by pooling-of-interests, is probably insurmountable and at very best, unclear. Such vagaries will be counter-productive to the clear and concise advice which management needs from the accounting profession. The tests for control as suggested by paragraph 11 and 14c, d, e and f are adequate when applied as an additional test beyond "legal control".

I am especially opposed to Subparagraphs 14a and b being included in your proposed standard. These criteria do not demonstrate control and are not bright-line tests. Therefore, they should be excluded. These circumstances (a large voting block or a board of directors who appear to be connected with a "parent" (loosely defined)) may exist, but to presume that effective control exists, more likely than not, is incorrect. In Appendix B, paragraphs 152 and 158 should be reworked similarly.

This issue is of great importance to our industry where shareholders have diversified their holdings into precious metals companies and expect some degree of consolidation under pooling-of-interest accounting. I appreciate this opportunity to comment and am available for further questions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "R. B. ...".