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Southern Company

W. Dean Hudson  
Comptroller

January 12, 1995

Director of Research and Technical Activities  
Financial Accounting Standards Board  
File Reference 154-D  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Sir:

The Southern Company appreciates the opportunity to respond to your Exposure Draft on Consolidated Financial Statements: Policy and Procedures. The Southern Company is the parent firm of one of the nation's largest investor owned electric utility groups and is responding on behalf of Southern and its subsidiary companies, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company, Southern Company Services, Inc., Southern Nuclear Operating Company, Inc., Southern Electric International, Inc., Southern Communications Services, Inc., and The Southern Development and Investment Group, Inc., - collectively referred to herein as "The Southern Company."

The Southern Company supports the comments submitted by the Electric Edison Institute (EEI). Our comments further elaborate on those made by EEI.

#### **Presumption of Effective Control**

The Southern Company disagrees with paragraph 14 dealing with the presumption of effective control. We believe that control should never be presumed. We strongly recommend that all references to the presumption of effective control be eliminated in the final standard. Rather, the paragraph 14 language should be restructured so that the

circumstances identified are only indicators that effective control **may** exist. As we noted in our response to the Board's "Preliminary Views" document, circumstances leading to control should leave little doubt about one entity's ability to control another. In cases where the parent does not own a majority of another entity's voting stock, it must be clearly evident to the parent that it has and will be able to maintain control. That assessment can only be made by management and not by a list of arbitrarily determined circumstances, such as a 40 percent minority interest.

### **Changes in a Parent's Ownership Interest in a Subsidiary**

The Southern Company strongly disagrees with the Board's conclusion that changes in the parent's ownership level, without loss of control, should be accounted for as treasury stock transactions with no gains or losses recognized. Accounting should be based on the substance of the transaction. We believe the proposed accounting completely ignores the substance of the transaction as the following example illustrates:

#### ***Case A***

An electric utility owns a coal fired generating unit in which it decides to sell a 20 percent interest. The utility will still control, maintain and operate the facility as it has done in the past. Under generally accepted accounting principles, a gain or loss would be recognized on the sale of the 20% interest.

#### ***Case B***

In light of the wholesale power market, the Company (Parent) decides to create a new wholly owned subsidiary, Company A, in which the Parent spins-off a coal fired unit to Company A as its only asset. Later, the Parent decides to sell a 20% interest in Company A to an outside party. Under the Exposure Draft, a gain or loss would not be recognized, but, rather, the sale of Company A stock would be treated as a decrease to the Parent Company's equity.

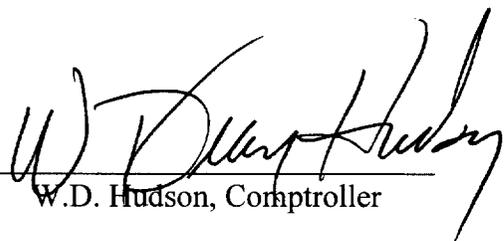
In both cases, the substance of the transaction was the same, a 20% ownership sale of the coal fired unit. However, in *Case B*, the only change was the structure or form of the transaction. Applying the provisions of the Exposure Draft to *Case B*, the Board is proposing a different accounting treatment based on the form of the transaction. As the

example clearly demonstrates, the Board is violating one of the most basic principles of generally accepted accounting principles, that accounting should be based on the substance and not the form of the transaction. We strongly recommend that the Board revise its conclusions regarding changes in a parent's ownership interest in a subsidiary. Failure to do so would be a significant departure from the current accounting model.

The Southern Company appreciates the opportunity to respond to the Board's Exposure Draft on Consolidations and Procedures. We hope that the comments and recommendations made will be helpful in upcoming Board deliberations.

Respectfully submitted,  
The Southern Company

By: \_\_\_\_\_

  
W.D. Hudson, Comptroller