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ROBERT L. CARLETON - ENIOR VICE PRESIDENT - ND CONTROLLER

January 11, 1996

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

Dear Mr. Lucas:

My staff and I have reviewed the FASB Exposure Draft, "Consolidated Financial Statements: Policy and Procedures". We support the Board's efforts to establish new guidance for consolidation of financial statements. We believe the Exposure Draft attempts to address most of the observed deficiencies that currently exist in the area of determining when entities should be consolidated. In general, we support the conclusions reached in the Exposure Draft. Below are some suggestions that we believe will improve the operationality of the final standard.

Effective Control

We agree with the inclusion of the concept of effective control as a condition requiring consolidation of an entity. We believe this concept will reduce potentially abusive situations where an entity is not consolidating an affiliate even though the entity effectively possesses the power to use or direct the use of the affiliate's assets, such as the use of the "49% ownership" structure.

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However, inclusion of the effective control concept will require the use of careful judgment to determine if an affiliate of an entity should be consolidated. In this regard, we believe that the guidance in paragraph 14 should be expanded. In particular, we believe that the concept of "significant minority interest" in paragraph 14a should be quantified or better defined. In addition, we believe that the circumstance of a "friendly" party's ownership of a significant minority interest in an affiliate of an entity should be considered in the determination of whether that entity possesses effective control, particularly in those situations where the friendly party is likely to support the proposals of the entity for the use of the affiliate's assets.

Temporary Control

Additional guidance is necessary concerning situations where a subsidiary is not consolidated because management originally expected to dispose of a subsidiary within one year after acquisition but does not dispose of the subsidiary within that one year time frame. In these situations, we believe that the reporting entity should be required to immediately consolidate the subsidiary and financial statements should be restated for the period where the subsidiary was originally not consolidated. This requirement will help ensure that the temporary control provisions are applied only in situations where management has a high degree of confidence of its ability to dispose of the subsidiary within one year. This requirement will eliminate current situations where subsidiaries are not consolidated for several years under the existing temporary control provisions.

The guidance in the temporary control area should be expanded to address whether earnings of the subsidiary during the temporary control period should be reported under the equity method or should be treated as an adjustment in the entity's investment in the subsidiary. In addition, the final standard should provide guidance as to how any difference between the carrying amount of the investment in the subsidiary and the sale price of the subsidiary should be recorded. Specifically, the standard should indicate whether the difference would be accounted for as a purchase price adjustment or as a gain or loss in the income statement. Further, we assume that the intercompany gains or losses elimination provisions of the statement would apply to intercompany transactions with subsidiaries under temporary control.

We also believe that it would be meaningful to a user of the financial statements to require disclosure of the subsidiary that is not being consolidated, as well as the facts and circumstances leading to management's assessment that control is temporary.

Conforming Fiscal Periods

We believe that the Board should provide clarification in paragraph 33 on whether the assessment of a material event occurring during an intervening period should be based upon the fiscal year of the consolidated reporting entity or the applicable industry segment in which the subsidiary is reported.

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Should you or your staff have any questions regarding our comments, please feel free to call me at (914) 253-3406.

Sincerely,