



January 11, 1996

Letter of Comment No: 55
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Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Re: Proposed Changes in Policy and Procedures for Consolidated Financial Statements

Dear Board Members:

The proposed changes in the consolidation policy and procedures aggressively expands the scope from ownership of assets and entities to control of an entity. Although there is merit to the concept of some sort of disclosure when one entity "effectively" controls another entity, but may not have majority ownership, the proposed literature outlined in the exposure draft ("ED") creates policy that is not sound. Related to special purpose entities ("SPE"), the ED would create inconsistencies in practice. Also, retroactive restatement of financial statements are likely to trigger violations of previously negotiated agreements.

INCONSISTENT REPORTING

Related to leases and SPE's, the ED would create inconsistencies in reporting. For example, lessee "A" leases an asset from a SPE. In accordance with the terms of the lease, the lease qualifies as an operating lease. Lessee "B" leases an asset identical to Lessee "A's", however, Lessee "B" does not involve a SPE. The terms of the lease for Lessee "B" require operating lease treatment. Under the ED, Lessee "A" would be required to consolidate the SPE, whereas, Lessee "B" would continue to receive off balance sheet operating lease treatment. This is completely contrary to what the Board had discussed and agreed to in FAS 13, paragraph 82.

RETROACTIVE RESTATEMENT

Retroactive restatement is not appropriate. The proposed literature would negatively impact previously negotiated agreements, such as covenants related to debt agreements. At a minimum, any new consolidation pronouncement should be implemented on a prospective basis and grandfather prior periods and related transactions.

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CONCLUSION

We strongly suggest that the Board reconsider the proposed literature in order to properly address the above matters.

Very truly yours,

Jeffrey P. Cornwell

Assistant Vice President and

Corporate Controller

cc: Britt Murdoch, Chief Financial Officer

Charles Hopkins, KPMG Peat Marwick LLP Kevin O'Hara, KPMG Peat Marwick LLP

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