

Insignia Financial Group, Inc.

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Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Exposure Draft - Consolidated Financial Statements: Policy and Procedures

Dear Mr. Lucas:

We are pleased to present our comments regarding the proposed Statement of Financial Accounting Standards on the above-referenced subject. In general, we do not support the proposal in that it creates a high degree of subjectivity and, therefore, the possible advent of unreasonable "creativity" in the preparation of financial statements. It is our belief that the current standards adequately and appropriately encompass the necessary objective determinations of entities to be consolidated. More specifically, we believe the proposed standard inappropriately calls for the consolidation by a sole general partner of limited partnerships in which the general partner has only an insignificant ownership interest (such as one-half of one percent to five percent). This practice would lead to significant distortions of financial statements of companies serving as general partners of limited partnerships and render those financial statements meaningless.

Insignia Financial Group, Inc. (Insignia)

Insignia is a fully integrated real estate service organization primarily engaged in property management, asset management, investor services, partnership administration, mortgage banking and real estate investment banking services for various ownership entities, including approximately 900 limited partnerships. Insignia or one of its affiliates is the sole general partner in a majority of those partnerships. In addition, Insignia is expected to close on the acquisition of National Property Investors, Inc. (together with its affiliates, "NPI"), its property management affiliates and certain general and limited partner interests in real estate limited partnerships. This will expand Insignia's ownership of general partner and limited partnership interests significantly. Upon consummation of the acquisition, Insignia will be a general partner in over 35 public limited partnerships and over 133 private limited partnerships. Insignia will have

limited partnership interests ranging from 10% to over 50% in various public limited partnerships

Insignia's Position

It is our position that the presumption of "control" by a sole general partner and the resulting consolidations as stipulated in the Exposure Draft would significantly distort the financial statements of Insignia and other companies which have similar ownership interests in real estate limited partnerships, since it would require consolidation of real estate limited partnerships in which the general partner has insignificant ownership interest and little or no residual interest.

Control and/or Economic Benefit

The presumption of the Exposure Draft is that by definition the general partner has control of the limited partnership's assets and, therefore, is in position to use those partnership assets primarily for its own benefit. In fact, the general partner is charged by the partnership agreement with the administration of the partnership's assets and affairs for the primary benefit of the limited partners. The general partner may have concurrent interests with the limited partners, but its fiduciary responsibility dictates that its interests are subordinate to those of the limited partners. Obviously, the general partner is involved with the express intent of economic enrichment, but that economic benefit is derived usually when it is concurrent with the economic enrichment of the limited partners. Normally, the primary potential economic benefit to the general partner is a residual interest which is subordinate to the limited partners attaining their economic interests.

To imply that the general partner has control of the assets and should therefore include the gross amount of those assets in the general partner's balance sheet would lead the reader of the financial statements to assume that the general partner is the primary beneficiary of the income derived from those assets, which is certainly not the case. In many limited partnerships in which either Insignia or one of its affiliates is general partner, the risks and rewards (profits, losses and distributions) inherent in the operation and management of the limited partnerships' properties flow primarily to the limited partners. Based on our experience in the real estate industry, a sole general partner usually owns less than a five percent interest in a limited partnership.

Paragraph 10a and 10b of the Exposure Draft list certain examples of how a "parent" can direct or use the assets of a "subsidiary". Generally, real estate limited partnership agreements contain limitations as to what the general partner can do. Such limitations usually prohibit the comingling of funds, payment of certain fees to the general partner, dissolution of the partnership without limited partners' approval, and changes in investment objectives. In addition, many limited partnership agreements require that distributions be made to partners of cash flow from operations, as well as cash flows from refinancings and sales of properties. This policy limits the discretion the general partner has in using the partnership assets as its own assets. We believe that most limited partnerships, including the majority of publicly syndicated limited partnerships, provide significant rights to the limited partners. In addition, the fiduciary responsibilities of the general partner require the general partner to utilize the assets of the limited partnerships for the ultimate benefit of the partners. This is in direct conflict with paragraph 10 of the Exposure Draft. Therefore, we do not believe that general partners should be presumed to have effective

control over the limited partnerships. The limited partners may have delegated certain powers to the general partner, however in many partnerships the general partner can be removed upon the vote of more than 50% of the partnership units with or without cause. Therefore, the delegation may be temporary. Paragraph 156 of the Exposure Draft indicates that the general partner may not control the limited partnership if the limited partners can remove the sole general partner. We believe this is too subjective and increases the likelihood of conflicting practice. If a new standard were to be issued, it should address in a more objective manner the decision process for evaluating control under these circumstances, particularly since the majority of publicly syndicated partnerships provide significant rights to limited partnerships. We believe the guidance specified in the Exposure Draft is too limited and open to differing interpretations. We believe a new standard is not necessary.

Legal versus Effective Control

As stipulated in the Exposure Draft, control is attained either legally and/or effectively. The Exposure Draft defines legal control as “control attained by holding sufficient unconditional rights to elect or appoint a majority of a corporation’s governing board or by provisions of a partnership agreement or other contractual arrangement”. In the case of a general partner, its control is anything but “unconditional” in that its role is terminable as soon as it subordinates the limited partners’ interests to its own.

Similarly, “effective” control as defined “results from owning a large minority voting interest coupled together with other favorable circumstances”, neither of which is usually true in the case of a general partner. A general partner does not have a “large minority voting interest”, and any “favorable circumstances” accruing to the general partner are in most cases, if not all cases, subordinate to the limited partners’ interests. In fact, in our experience, the general partner usually owns a very small financial interest and little or no residual value in the limited partnership. While the general partner is able to conduct the ordinary business of the partnership, the limited partners often have the right to veto certain decisions such as dissolution of the partnership and the sale of assets.

In addition, as previously mentioned, most public limited partnership agreements contain provisions whereby the limited partners can remove the general partner without cause by a majority vote of the limited partners. Paragraph 156 of the Exposure Draft refers to special provisions that may overcome the presumption that a sole general partner controls a limited partnership. We believe that such special provisions exist in a significant number of partnership agreements, and perhaps the majority of limited partnership agreements for public partnerships. By presuming that a general partner is in control, each of these provisions will have to be re-evaluated. The interpretations of such special provisions as to whether they constitute a limit on control would be extremely subjective and would result in very inconsistent practice in determining whether or not to consolidate a limited partnership.

We realize that there are instances when a general partner is in a ‘controlling’ capacity and also has the requisite ownership interest and risks and rewards associated therewith, but in the hundreds of partnerships in which Insignia or one of its affiliates is general partner, there are only

nominal risks and rewards to the general partner relative to the aggregate risks and rewards of the limited partners. We believe our situation is typical of in the real estate industry. Therefore, we believe there should be some objective criteria for a threshold of economic interest combined with legal and/or effective control in the determination of the need for consolidation of limited partnerships or any other entities. We believe the most important such criteria would be a greater than 50% ownership interest in the partnership. Absent such ownership or voting control we believe a general partner should not be required to consolidate a limited partnership and certainly should not be presumed to be in "control".

Financial Statement Effect

In assessing the Exposure Draft, we have tried to interpret how the proposed consolidation policy would affect the financial statements of a sole general partner in real estate limited partnerships. As of December 31, 1994 Insignia was a general partner (usually three percent or less) in a approximately sixty public and private limited partnerships. These partnerships had an aggregate of approximately \$318 million in total assets, \$276 million in total liabilities, and \$94 million in total revenues in fiscal 1994. We do not believe that the consolidation of these partnerships would improve the financial reporting of Insignia to its shareholders and other readers of its financial statements. Such consolidation would increase Insignia's assets by 182 percent. In addition, the financial statements would improperly reflect those of an owner and operator of real estate rather than properly presenting financial statements of the real estate services company in which the shareholders of Insignia invested. An illustration of the distortion which could occur on a general partner's financial statements is attached to this comment letter. This illustration was prepared from summarized financial information relative to Insignia and approximately sixty partnerships. We also believe that this improper result will be typical of other entities that are required to consolidate limited partnerships in which they own insignificant ownership interests. Insignia and its affiliated companies investment represent only a small portion of syndicated real estate limited partnerships. The distortion of financial statements in the real estate industry as a whole would be astounding.

In addition, we believe that this requirement would place an undue burden on real estate service companies. In Insignia's case, it could, dependent upon an extensive evaluation of each partnership agreement, have to consolidate over 170 audited financial statements of limited partnerships, rather than report its investments on an equity basis. This would be make it extremely difficult, if not impossible, to meet SEC deadlines for interim and annual financial reporting.

An affiliate of Insignia would also have to perform an extensive evaluation of approximately 700 limited partnerships to see if the proposed criteria for consolidation is met. These evaluations to this extent are not presently required under current accounting guidance, since such investments are accounting for on the equity method under the assumption that a sole general partner has significant influence over its limited partnerships. Therefore, the additional work to be performed to evaluate the new consolidation rules would be extremely burdensome and probably could not be completed by the proposed effective dates listed in the Exposure Draft.

Conclusion

In conclusion, it is our position that the existing standards for consolidation generally are adequate and meaningful. We believe consolidation should be required only when there is majority ownership and voting control by the parent. To require consolidation of limited partnerships in financial statements of general partners which have very little, if any, ownership or residual interest in those limited partnerships would lead to significant distortion of financial statements of those of us in the real estate industry and render such financial statements meaningless to investors, analysts and other stakeholders.

Very truly yours,

A handwritten signature in black ink, appearing to read 'R. Uretta', with a large, stylized flourish at the end.

Ronald R. Uretta
Chief Financial Officer
Insignia Financial Group, Inc.

Illustrative Balance Sheet

(Thousands of Dollars)

	Parent	Combined Limited Partnerships	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 36,596	\$ 10,015		\$ 46,611
Receivables	13,572			13,572
Property and equipment, net	5,868			5,868
Real estate limited partnership interests	37,926			37,926
Apartment properties		281,618		281,618
Property management contracts, net	73,411			73,411
Costs in excess of acquired businesses	3,327			3,327
Deposits		17,871		17,871
Other assets	3,572	8,300		11,872
Total Assets	\$174,272	\$317,804		\$492,076
Liabilities and Equity				
Liabilities:				
Accounts payable	\$ 3,478			\$ 3,478
Accrued and sundry liabilities	18,790	\$ 15,084		33,874
Notes payable	63,198	8,209		71,407
Nonrecourse mortgage notes		252,989		252,989
Subordinated convertible note	10,000			10,000
Total liabilities	95,466	276,282		371,748
Stockholders' equity:				
Common stock, Class A	99			99
Common stock, Class B	2			2
Additional paid-in capital	63,672			63,672
Non-controlling interest in subsidiaries		47,176		47,176
Retained earnings	15,033	(5,654)		9,379
Total stockholders' equity	78,806	41,522		120,328
Total liabilities and stockholder' equity	\$174,272	\$317,804		\$492,076

Illustrative Income Statement

(Thousands of Dollars)

	Parent	Combined Limited Partnerships	Eliminations	Consolidated
Revenues				
Fee based services	\$72,292		\$(21,687)	\$ 50,605
Equity in partnership income	113			113
Net rental income		\$ 86,494		86,494
Interest	1,457			1,457
Other	1,704	7,743		9,447
	75,566	94,237	(21,687)	148,116
Costs and expenses				
Fee based services	49,090			49,090
Apartment property operations		52,455	(21,687)	30,768
Administrative	5,667			5,667
Interest	742	22,629		23,371
Depreciation and amortization	7,966	25,126		33,092
	63,465	100,210	(21,687)	141,988
Income before income taxes	12,101	(5,973)	-	6,128
Provision for income taxes	4,840			4,840
Consolidated net income	7,261	(5,973)	-	1,288
Net loss attributable to the noncontrolling interest		(319)		(319)
Net income (loss) attributable to the controlling interest	\$ 7,261	\$ (5,654)	\$ -	\$ 1,607