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Financial Accounting Standards Board
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Attn: Mr. Timothy S. Lucas
Director of Research and Technical Activities

Ladies and Gentlemen:

NatWest Markets has reviewed the Board's Exposure Draft, *Consolidated Financial Statements: Policy and Procedures*, and we have discussed the proposed new standards with accountants of recognized standing. We believe that financial statements should reflect, as accurately and fairly as possible, the economic realities of the matters which they present. In our view, the currently effective consolidation procedures do this. We submit that there is no substantive need to revise the existing procedures.

We understand that the premise underlying the new procedures is that consolidated financial statements should report the financial position, results of operations and cash flows of an entity comprising a parent and subsidiaries on a combined entity basis, "essentially as if all of the resources of the affiliates were held and their activities were conducted by a single entity with one or more branches or divisions." The stated rationale for the new procedures is that "single entity" reporting stems from the needs of resource providers "for financial information that is helpful to them in assessing an entity's financial position and performance and the Board's conclusion that information about the whole of an entity's economic resources and activities is essential to a fair assessment of its performance."

The reality, however, is that the stock of a subsidiary is an asset of the parent corporation, not the underlying assets of the subsidiary. A parent's creditors can reach the assets of subsidiaries only after the subsidiaries' obligations have been paid or provided for, and in this sense creditors of the parent are subordinated to all outstanding claims against the subsidiaries. Clearly, non-guaranteed creditors of a subsidiary do not rely in extending credit on consolidated financial statements inasmuch as the assets of the parent and other subsidiaries may not be available to satisfy the claims of such creditors.

The single entity premise also leads to an incorrect characterization of minority stockholders in subsidiaries. We submit that from the point of view of investors in the parent and the parent's creditors, the rights of minority stockholders should be reflected as charges against the consolidated entity, in the sense that their interests must be satisfied at the time the subsidiary's assets become available to the parent and serve, therefore, to reduce the assets available to the parent's investors and creditors. We believe, in addition, that readers of consolidated balance sheets may be misled into believing that minority interests constitute part of the equity of parent corporations.

Our principal concern with the new procedures is that reporting entities may be able to distort, manipulate and abuse financial statements. Examples of such abuse pointed out to us are that a business may be sold for less than the amount paid for it, with a gain on sale being recorded by the seller, the fact that gains may be recorded in step acquisitions upon the purchase of a controlling interest or an interest that results in significant influence, and the fact that realized gains or losses on sales of stock in a controlled subsidiary will not be recognized in consolidated financial statements, contrary to the manner in which sales of other property are accounted for. On the other hand, there are no apparent benefits to be derived from the new procedures and it is far from clear that the interests of any constituency will be served.

Sound financial reporting, which reflects the economics of transactions, is an integral part of the global capital markets. We are concerned that securities investors will be confused, at best, and misled, at worst, if the new procedures are implemented. It will become the task of securities firms to explain the new financial statements and reconcile them with historical statements, and it is not clear that sufficient information will be available for this to be done adequately. Accordingly, we again urge the Board not to implement its tentative conclusions reflected in the Exposure Draft.

NatWest Markets is a global corporate and investment bank formed by National Westminster Bank Plc. Our investment banking businesses include corporate finance and financial advisory services, securities underwriting, distribution and trading and equity and fixed income research. Our activities are focused on raising equity and debt capital, providing comprehensive research coverage and aftermarket trading support and assisting our clients with mergers, acquisitions and related transactions.

We appreciate having this opportunity to state our comments regarding the Exposure Draft and look forward to expressing our views at the hearing to be held in February.

Very truly yours,

Bradley G. Razook
Executive Vice President