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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

Re: **Proposed Statement of Financial Accounting Standards - Consolidated Financial Statements: Policy and Procedures**

Dear Director:

We are strongly opposed to the issuance of the standard as proposed in the October 16, 1995 Exposure Draft. We support the view that states that issues revolving around "power to direct" alone, to the exclusion of underlying economic substance, are not sufficient for one business enterprise to consolidate another business enterprise. We believe that consolidated financial statements should include only those assets and liabilities which substantially benefit the reporting entity. All financial measures of performance are obscured if the benefits of the net assets do not have a significant economic impact on the reporting entity.

The strong opposition to the procedures proposed in the Exposure Draft stems specifically from the Board's sole criteria being the definition of control in paragraph 11. The Exposure Draft states that "a controlling entity can use or direct the use of the individual assets of its subsidiary in ways that enable it (i.e., the controlling entity) to obtain the service potential or future economic benefit inherent in those assets. There is no consideration given to whether benefits can be or have been obtained or in fact if there is any future economic benefit to be obtained. By way of example, the Exposure Draft indicates that a controlling entity can increase its own future net cash flows by the strategic structuring of transactions involving the subsidiary's assets without adversely affecting the rights of the non-controlling equity holders. This concept ignores the reality of situations where there is no benefit to be obtained and is inconsistent with the exclusion of mutual funds where control is outweighed by "fiduciary responsibility" issues. The Exposure Draft further speaks of the ability to exercise control, as defined, in that it "enables a parent to use its subsidiary's assets for the parent's benefit." This concept ignores the reality of situations where the "parent" has little or no ability to derive benefit from the "subsidiary's" assets and has little or no obligation concerning the "subsidiary's" liabilities.



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The Board has also asked that respondents test the application of the proposed provisions to their own circumstances. Under the proposed procedures established by the Exposure Draft, we believe that we may be required to consolidate numerous of our previous public and privately syndicated limited partnerships. The literal result would be to increase the company's balance sheet "footings" by billions of dollars, rendering the company's true financial position incomprehensible. Operations would be similarly affected, resulting in what we believe to be a wholly meaningless set of financial statements.

Contractual or mutual fund managers are precluded from consolidation in paragraphs 161 and 162. The Exposure Draft speaks of the "fiduciary responsibility" to protect the interests of the investors of the "fund" as rationale for exclusion. Why then should not this same rationale apply to all reporting entities?

The Board argues in paragraph 85 that to omit reporting on a subsidiary's assets and liabilities because the parent's ownership is below some specified level is to render the statements incomplete. We would argue that to do otherwise ignores economic reality. Paragraph 4 excludes entities that carry their assets and liabilities at fair value. Apparently this means the "one-line" presentation of equity position is complete for a mutual fund while the absence of the gross-up of billions of dollars is incomplete. This position is at best illogical. An entity that exercises the same degree of "control" over "subsidiaries" with a significant economic interest would then not consolidate whereby an entity not "grandfathered" and with little or no economic interest would consolidate.

The Exposure Draft confirms its own conclusions in the Preliminary View and rejects consideration of economic benefits. It is this fundamental point with which we have the strongest disagreement. We believe it inappropriate to ignore this issue, to suggest that it is too difficult to define or conclude that since earlier respondents did not suggest a common definition, it has no relevance.

We would urge the Board to withdraw the Exposure Draft completely. While it is recognized that considerable time and effort has gone into it's preparation, it contemplates much too sweeping of a change in focus from existing standards, standards which we believe have shown no signs of being broken.

Sincerely,

Gailen J. Hull, Senior Vice President  
Principal Accounting Officer  
JMB Realty Corporation