



Paul Munter, Ph.D., C.P.A.  
KPMG Peat Marwick Accounting Scholar  
Chairman, Department of Accounting  
School of Business Administration  
1102 Stanford Drive  
Coral Gables, Florida 33146  
305-284-2849  
FAX: 305-284-5737  
E-Mail: PMUNTER@SBA01.MSMAIL.MIAMI.EDU

Number of Comment No.	4
File Reference	1082-154
Date Received	12/11/95

November 29, 1995

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

Re: File Reference No. 154-D, "Consolidated Financial  
Statements: Policy and Procedures

Dear Mr. Lucas:

Let me begin by stating that I am very much supportive of the basic provisions included in the FASB's exposure draft on consolidations. I am familiar with many situations where companies clearly have "effective control" over another entity but use the arbitrary 50% ownership cutoff as a basis for not consolidating the investee. How often do we see ownership levels of 49% in practice which is coupled with other factors (such as management contract or significant financing, etc.) which convey effective control. While I fully support the FASB's use of effective control as the consolidation policy, I have some specific concerns about the criteria which are presented in the exposure draft.

I think that paragraph 10 does a nice job of explaining the concept of control. This paragraph describes what I would call "management" control. While I agree with this concept, I am not sure that these ideas are adequately incorporated into the rebuttable presumptions test which are delineated in paragraph 14. I would suggest that the notions which are spelled out in paragraph 10 be clearly included in paragraph 14 as well. I think that the concepts of paragraph 10 can be inferred (such as in 14a, 14b, 14d, or 14e), but I think a clearer statement about management control would fortify the criteria already enumerated in paragraph 14.

Re: File Reference No. 154-D, "Consolidated Financial  
Statements: Policy and Procedures  
November 29, 1995

A second concern I have about paragraph 14 is the parenthetical notation included in 14a--approximately 40 percent. Again, I agree with the concept, but I think there is a danger to including a specified percentage guideline. Practice has a way of interpreting such numbers to suit the situation and, much like we have today, we may see ownership interests set at 39% to avoid this criterion. Thus, I would recommend that the parenthetical notation simply be eliminated.

Regarding 14f, again, I fully agree with this notion. I might ask whether there are circumstances where there is more than one general partner where still one of the partners has control. This issue might be clarified by adding the management control concepts I referred to above. Nonetheless, I think it is worthwhile to reiterate the point made elsewhere in the document that the concept applies to all investees. Thus, a situation where there are several general partner but one is the managing general partner (or equivalent) likely would create the presumption that the entity has the ability to control the partnership.

Regarding consolidation procedures, once again, I agree with the use of the economic unit with purchased goodwill approach. I would suggest that paragraph 18 use that description to link the conclusions in the exposure draft to the FASB's discussion memorandum issued in 1991. Additionally, my experience is that many practitioners do not realize that this is a different approach to consolidation from the parent company approach commonly used. Thus, there needs to be some way to alert practitioners to the fact that they may need to make adjustments to their consolidated totals even for subsidiaries which are currently consolidated. This, of course, would be especially apparent when control had been achieved previously through a step acquisition.

In paragraph 25, I would suggest that the paragraph contain a brief explanation that EPS is based on the controlling share of net income because that is the portion which is available to common shareholders (i.e., the controlling interest shareholders).

I disagree with paragraph 36. I think that with the changes in disaggregated disclosures currently under consideration by the FASB (as outlined in the Status Report of October 11), it may, in many cases, be unnecessary or redundant to provide such information as the FASB proceeds to a final document on disaggregated disclosures.

Re: File Reference No. 154-D, "Consolidated Financial  
Statements: Policy and Procedures  
November 29, 1995

Lastly, let me observe that I agree with the proposed effective date and transition requirements. Certainly, retroactive application is entirely consistent with the reporting requirements for a change in the reporting entity. Further, I believe that 1997 is an appropriate implementation date EVEN if it is late in 1996 before this standard is finalized. Since the provisions would be retroactively applied anyway, companies should begin considering the implementation issues prior to finalization by the Board anyway.

Thank you for the opportunity to comment on this proposed standard.

Sincerely,

A handwritten signature in cursive script, appearing to read "P. Munter".

Paul Munter