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Thomas C. Heagy Chief Financial Officer

June 10, 1999

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Letter of Comment No: //D
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RE: File Reference No. 194-B

Dear Mr. Lucas:

ABN AMRO in North America (ABN AMRO) is a provider of diversified financial services including commercial, investment and retail/consumer banking; brokerage and trust services; and investment management. Our organization welcomes the opportunity to respond to the Financial Accounting Standards Board's (the Board) Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements: Purpose and Policy (the Proposal).

ABN AMRO does not support the Proposal. In our view, accounting policies regarding consolidations are well established in Statement 94, Consolidation of All Majority-Owned Subsidiaries, and ARB 51, Consolidated Financial Statements. The Proposal fails to establish improvements from these statements because the notion of effective control is impractical to implement.

While the concept of effective control clearly has a stronger theoretical basis than the ownership percentages and other "bright lines" established in existing literature, effective control has been defined too subjectively. The most likely results are rather unenviable: consolidation policies will become inherently more subjective, consolidation procedures will be difficult to implement, comparability of financial statements will be impaired, and practice will become more convoluted. Accordingly, ABN AMRO believes the most appropriate course of action would be to withdraw the Proposal.

As defined by the Proposal, effective control is based upon unilateral decision-making abilities in conjunction with the power to optimize benefits while limiting losses of the entity to be consolidated. The breadth of judgment involved in assessing this subjective notion of control is evident in the illustrative examples presented. Nearly one-third of the Proposal is dedicated to these examples in an attempt to illustrate how to assess the existence or absence of control. Yet, the Proposal clearly expresses the caveat that all possible applications and scenarios are NOT presented.



The Proposal also states that others assessing varying circumstances will seldom interpret consolidation issues in significantly different ways. Based on the magnitude of reasonable, yet differing views presented regularly to the Emerging Issues Task Force (EITF) regarding other, more objective accounting standards, we respectfully disagree. It is easy to foresee how reasonable parties will reach differing conclusions about control and consolidation requirements based on the proposed guidance. Inevitably this will lead to differing interpretations, consolidation procedures, and reporting practices, which will be detrimental to users of financial statements.

Further, the proposed definition of control does not follow established business practices or legal frameworks. Entities often create corporations, partnerships, trusts, and other ventures in order to shield their shareholders from certain business risks. Users of financial statements understand these risk control measures, and court systems abide by these legal separations. The proposed effective control guidelines and consolidation requirements ignore these facts. Rather, the Board seems steadfast in its view that legal constructs are not relevant to the issue of control. We find this view quite perplexing in light of recently issued standards that appear to rely heavily on legal constructs and definitions (i.e., Statement 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and Statement 133, Accounting for Derivative Instruments and Hedging Activities).

In our view, if established business practices and legal frameworks are disregarded in favor of subjective consolidation guidance, then one of the conceptual objectives of financial reporting will be impaired: providing accurate representation about an entity's economic resources. Consolidated financial statements imply accessibility to *all* of the economic resources of subsidiaries. However, not all of those resources are available to the "parent" if the risks and rewards of the subsidiaries are spread amongst various shareholders. It is evident that the proposed guidelines will result in financial statements that are "grossed-up" for resources - and obligations - which do not truly reflect the entity's rights to resources nor the entity's obligations. ABN AMRO believes this outcome will be misleading to users of financial statements.

Conversely, the objective definition of control provided in existing consolidation policies provides clearer guidance and practical applicability for both users and preparers of financial statements. Users understand that consolidated financial statements utilizing the current standards reflect at least a 50% interest in both the risks and rewards of the subsidiary. Certainly this objective definition lacks some theoretical credibility. However, utilizing an objective definition limits the variability in application of standards and ensures a higher degree of comparability in financial statements. In contrast, ABN AMRO believes the notion of effective control is so subjective and lacking in clarity as to damage the comparability and reliability of financial statements. Most notably, comparability would be impaired because the Proposal would require companies to consolidate entities over which they exert differing levels of control and maintain varying ownership interests and roles. Again, this outcome will be misleading to



users of financial statements, especially when they are attempting to compare financial positions and ratios between seemingly comparable corporations.

Lastly, ABN AMRO is disappointed the Proposal provides only limited guidance regarding the most troubling issues of current practice: special purpose entities, transfers of financial assets, and trusts and partnerships established for leases. The numerous debates and discussions surrounding the complexity of the current standards for these issues suggests more guidance is required than is provided in the Proposal. In our view, if these issues are not addressed further, the Proposal will result in stop-gap measures leading to many questions posed to the Board, or the Securities and Exchange Commission, following implementation.

We appreciate your consideration of our comments to the Proposal and hope our suggestions aid the Board in its decision with this matter. Should you have any questions or comments, please contact Gregory S. Sosnovich at (312) 904-5159 or Karen Ingwersen at (312) 904-1221.

Very truly yours,

Thomas C. Heagy
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