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CORNING

Director of Research and Technical Activities
Financial Accounting Standards Board
407 Merritt 7
P.O. Box 5116
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Letter of Comment No: 106
File Reference: 1082-194R
Date Received: 6/14/99

Re: File Reference 194-B

Dear Sir:

We have reviewed the Exposure Draft (ED), *Consolidated Financial Statements, Purpose and Policy*, and appreciate the opportunity to present our views.

We do not feel that the ED adds value to financial statements prepared under current guidelines. We oppose the issuance of this proposed statement as it is currently written for the reasons outlined below.

We feel strongly that the ED will lead to confusion and inconsistent application in practice. The new concept of shared control has much more subjectivity in application than the current guidelines under EITF Consensus 96-16 (EITF 96-16). There is not a clear distinction between shared control and a limitation of control. The financial statement preparer must decipher whether a restriction on control is a limitation or constitutes shared control.

In addition, the ED requires the financial statement preparer to determine whether effective control has been achieved. Today's standards (FAS 94) provide the preparer with an objective starting point to demonstrate effective control. Specifically, ownership 50% or greater is required as an element for control. The ED as drafted could result in a company consolidating a minority position. At the same time, another company for which an 80% interest is held may not be consolidated because of restrictions on control.

Finally, we are very concerned that the guidance in the ED is not complete. This ED omits conclusions on the appropriate accounting treatment for joint ventures and other similar entities. This will lead to even greater confusion as companies struggle to determine the appropriate accounting treatment for these related entities. The ED also does not reconcile equity accounting and consolidation. Today's standards provide a bridge between the equity method and consolidation, which aids applying the proper accounting method and provides comparability between companies. Before any FASB consolidation project is completed, we think this scope omission should be addressed.

In short, we believe the FASB will do a disservice to financial statement users by changing the current standards to the more ambiguous concepts in this ED. Attached for your review is our response to each of the three issues of the ED. If you would like to discuss any of these comments further, please call me at (607) 974-8242.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathy Asbeck". The signature is written in a cursive, somewhat stylized font.

Kathy A. Asbeck

Definition of Control and Its Implementation Guidance

Issue 1: Does the revised definition, together with the discussion of the characteristics of control and descriptive guidance, help clarify when one entity controls another entity? Will the revised definition and guidance lead to common understandings and application of this Statement's definition of control?

The new definition of control is not a clear definition of control that can be easily understood and applied to all circumstances. Because the new definition is based on potential control, it could result in both the consolidation of entities where the "parent" lacks majority ownership and power and the deconsolidation of majority owned entities whose operations are directly managed.

The omission of guidance on the accounting treatment for joint ventures and other similar entities will lead to inconsistent accounting treatment in practice. Footnote 17 of paragraph 187 states,

“This Statement does not consider accounting for joint ventures and other unconsolidated entities over which another entity can exercise significant influence. Accordingly, the Board has not considered whether the proportionate consolidation method, equity method, or other method of accounting and reporting may be most appropriate for those relationships.”

Besides not addressing the appropriate accounting treatment for joint ventures, the ED also excludes a definition for what FASB considers to be a "joint venture" (i.e. equal ownership by all shareholders or any private entity with only a few unrelated shareholders).

Today there is consistency in the accounting literature as FAS 94 is a direct extension of APB 18. Under the newly proposed standard, the linkage appears to be somewhat nebulous. Does the FASB mean to imply that an entity should fully consolidate something for which it owns 40%, including cash flow information, yet should not include or proportionately include the performance of a joint venture? This potential outcome does not clarify or enhance the usefulness of financial statements. Accordingly, we urge the Board to come to conclusion on this concept before releasing a statement on consolidation.

The concept of shared control should be better defined. It is unclear to us what shared control (which prohibits consolidation) means versus limitations of control (which requires consolidation). While paragraph 45 and footnote 7 refer to EITF 96-16, it was not clear to us which concept of shared control provisions of EITF 96-16, if any, were being adopted by the ED. Does the introduction of shared control supercede EITF 96-16 concept of participative rights? We believe the consensus reached in EITF 96-16 provided a distinct framework for determining when control exists and should not be replaced by the ambiguous

Issue 2: Will guidance in the form of rebuttable presumptions of control be necessary? Do the circumstances described in each of the situations above provide a reasonable basis for presuming that one entity controls another entity in the absence of evidence that demonstrates or proves otherwise? Are they sufficiently clear and operational? Are additional presumptions of control necessary for specific circumstances? (If so, please identify those circumstances.)

Guidance in the form of rebuttable presumptions of control is necessary; however, an ownership interest of some minimum level and management's intentions ought to be included as one of those presumptions. We are doubtful that the guidance as it stands without this direction will lead to consistent practice.

For example, Company A owns 75% of Company B and 35% of Company C. Company B is 25% owned by Company D who is presumed to have shared control with A. Company C, on the other hand, does not have any other greater than 5% shareholders. Because of the voting patterns of past shareholder meetings, Company A is presumed to have effective control of Company C. Under the proposed guidance, Company A would be required to deconsolidate Company B (75% owned) and consolidate Company C (35% owned). However, it is unclear that Company C would be consolidated upon formation as shareholder voting history would be unknown.

We do not feel that consolidated statements reflecting this scenario would be overly useful. In particular, we feel the cash flow statement of this scenario would be misleading as it would include cash flows from the 35% owned entity (Company C), and would not include the cash flows of the 75% owned entity (Company A). We feel this masks the true nature of the cash flows of the consolidated entity thereby distorting comparability with consolidated statements of others.

Consolidation based on potential residual interest without consideration of management's intentions is a dangerous standard. Given today's volatile market, the ED's definition of control, without a minimum equity interest requirement, could result in the consolidation and deconsolidation of the same underlying investment. This could occur more than once over the life of an investment in convertible securities. We do not feel this reporting turbulence would be beneficial to the financial community.

Transition and Implications for Interim Reporting

Issue 3: Are the benefits of complete and comparative financial statements for all interim periods in the initial year of application sufficient to justify requiring, rather than permitting, that the provisions of this Statement be applied for the first and each subsequent interim period in the year of adoption? Are there specific circumstances surrounding the application of this proposed Statement that would justify delaying its application to interim periods in the year of adoption?

We would expect that many companies may be required to restate their financial statements based on their analysis of this ED. Restated financial statements, without accompanying footnotes would be misleading. Therefore, we feel the FASB should not require application of this proposed Statement in the year of adoption. In addition, given the complexity of this statement and the potential need for additional information from entities not previously consolidated and education of management, investors, etc., we believe an extremely long transition period will be required.