



**EDISON ELECTRIC
INSTITUTE**

DAVID K. OWENS
Executive Vice President
Business Operations

May 28, 1999

Letter of Comment No: 65

File Reference: 1082-194R

Date Received: 5/28/99

Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

Subject: File Reference 194-B

Dear Sir:

The Edison Electric Institute (EEL) appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB) Revised Exposure Draft (ED) on Consolidated Financial Statements: Purpose and Policy.

EEL is the association of the United States investor-owned electric utilities and industry affiliates and associates worldwide. Its U.S. members serve over 90 percent of all customers served by the investor-owned segment of the industry. They generate approximately three-quarters of all the electricity generated by electric utilities in the country and service about 70 percent of all ultimate customers in the nation.

While EEL commends the FASB for its revisions to the previous ED, EEL offers the following comments regarding the definition of control and when an entity should be consolidated.

The FASB's revised proposed statement defines control as "the ability of an entity to direct the policies and management that guide the

ongoing activities of another entity so as to increase its benefits and limit its losses from that other entity's activities." It further states that control is not shared with others.

EEl has the following two concerns with the ED's definition of control:

- Inconsistency in application: The ED's definition of control requires companies to use more judgment in their decisions regarding consolidation. Thus, this may lead to inconsistencies in applying the standard for consolidating entities from company to company or from period to period.
- Critical condition for consolidation: EEl believes that the critical criterion for consolidation should be the right to a majority of the economic benefits flowing from a subsidiary. EEl has a concern with an entity being classified as in control or not in control based on the voting patterns of other investors.

It is clearly understood that consolidation is most likely required when legal control resulting from the direct or indirect ownership of more than 50% of the outstanding voting stock of a subsidiary company is present and that control is not shared with others. EEl is concerned about consolidating entities that are less than majority owned. Paragraphs 18 through 23 of the ED discuss situations that are intended to provide a presumption of control. Paragraphs 18b. and 18c. should be considered in evaluating the presumption of control but may not be enough to assume control. EEl is concerned about consolidating entities where a large minority voting interest is held and not the majority interest. In these situations, reporting could lead to an entity being classified as in control or not in control based upon the voting patterns of other investors. EEl believes that such instabilities in the potential reporting would be confusing to the financial statement users and would advance inconsistencies in the reporting where current practice is uniform.

Director of Research and Technical Activities

May 28, 1999

Page 3

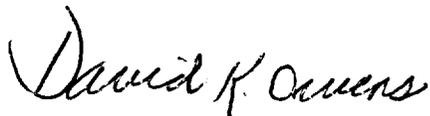
In addition, EEI believes that control and the right to a majority of the economic benefits flowing from a subsidiary is a critical condition that must exist for consolidation. Consolidation of financial statements without the criterion of the right to a majority of the economic benefits would be misleading and would create inconsistencies due to the subjectivity of measurements outlined in the ED.

Conclusion

Consolidated financial statements between entities will be more meaningful if those statements contain a fair representation of the parent company and its subsidiaries. Therefore, EEI believes that a more restrictive definition of control is necessary for the consistent application of the ED.

EEI appreciates the opportunity to respond to this ED and allowing us to provide input into the standard setting process. We look forward to working with the Board on related subsidiary accounting matters.

Sincerely,

A handwritten signature in cursive script that reads "David K. Owens". The signature is written in black ink and is positioned above the printed name.

David K. Owens

DKO/tm