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**Earl W. Baucom**  
Senior Vice President and Controller

May 24, 1999

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

**Letter of Comment No:** 56  
**File Reference:** 1082-194R  
**Date Received:** 5/26/99

Proposed Statement of Financial Standards,  
"Consolidated Financial Statements: Policy and Procedures"  
(File Reference No. 194-B)

Dear Mr. Lucas:

John Hancock appreciates the opportunity to comment on the proposed Statement, "Consolidated Financial Statements: Policy and Procedures." We oppose the proposed consolidation standard and believe that the existing consolidation framework established by ARB 51 should be retained. Outlined below are our comments and positions on some of the key provisions of the proposed Statement.

General Comments:

Definition of Control and its Characteristics

The Board inquires as to whether the revised definition of control, together with the discussion of 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 the Statement's definition of control?

In response, we believe the definition of control and its characteristics as outlined in the Exposure Draft requires a subjective evaluation of the facts and could lead to increased diversity in practice. The number of examples in the Appendix, which are designed to illustrate situations when control exists, demonstrates the subjectivity of the proposed Statement.

Comparability and reliability of financial reporting will not be improved by replacing the objective and verifiable ownership test of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements." ARB 51 generally requires a voting interest in excess of fifty-percent and is a long-standing generally accepted accounting practice. Few companies perceive a need to change this existing practice.

We believe expanding the definition of control to include situations where the investor has an insignificant equity interest (e.g., a one-percent general partner in a limited partnership as outlined in Example 2 of Appendix A) is not appropriate. It is difficult to understand the meaningfulness to the financial statement user by the resultant "gross-up" in the financial statements for the assets, liabilities, revenues, expenses, gains and losses not owned by the entity reporting them. We believe the current requirement for use of the equity method of accounting, in most cases, sufficiently reflects the results of operations and financial position of the parent in situations where the investee is not majority-owned.

Paragraph 18c of the proposed Standard presumes that control exists if (1) one party has the ability to obtain a major voting interest through ownership of convertible securities or other rights that currently are exercisable at the option of the holder and (2) the expected benefit of converting or exercising such rights exceeds its costs. Until the conversion occurs or the right has been exercised, we fail to understand how the holder of such rights has ability to direct the policies and management of another entity.

#### Financial Statement Preparation

We believe there will be difficulties in obtaining all required financial information to prepare consolidated financial statements for entities that are required to be consolidated as a result of presumed control rather than actual controlling interest. We foresee many situations where the additional information required for a consolidated entity cannot be obtained because the investee does not prepare it and/or the investee is not contractually obligated to provide it.

In addition, the application of subjective criteria is likely to increase the cost of financial statement preparation because an annual evaluation of various factors to determine if control does or does not exist would occur.

#### Refinements to the Final Standard:

Notwithstanding our lack of support of the proposed Standard, the balance of this letter addresses refinements which should be made if the Standard is finalized.

Insurance Company Separate Accounts

Although not specifically identified in paragraph 5 of the Exposure Draft, insurance company Separate Accounts should be excluded from the proposed requirements for consolidation. As the Board is aware, fee income is earned from the management of assets held in Separate Accounts, however, the investment risks and rewards generally are transferred to the policyholders. Accordingly, we recommend that the Board clarify in the final Statement that Separate Accounts are similar to mutual funds and other investment companies specifically identified for exclusion in paragraphs 69 and 70 of the Exposure Draft.

Temporary Control of a New Subsidiary

Although John Hancock supports a temporary control exception to consolidation as noted in paragraph 24 of the Exposure Draft, we believe the proposed one-year rule may burden the financial statements with information irrelevant to the reporting entity's ongoing operations. For example, John Hancock as a lender has been involved in trouble debt restructuring where we have received an equity interest in an entity in full satisfaction on the existing debt as well as received management representation on its Board to facilitate implementation of a work out plan. In this situation, consolidation would not be meaningful. Our intent is to recover our loan from the operations and ultimately dispose of this "new subsidiary." Work out plans typically demonstrate management's intention to exit operations and often occur beyond a one-year period. We believe that the proposed definition of temporary control should include this situation.

Effective Date and Transition

If the Board decides to finalize the proposed Statement, the effective date should be delayed for one year. We anticipate that implementation of this proposed Standard would require extensive systems modifications to incorporate the financial reporting requirements for the increased number of entities to be consolidated. Because of Y2K compliance issues, John Hancock like other companies plans a moratorium on the implementation of system changes beginning October 1, 1999 through February 28, 2000.

It also may not be practical to restate prior periods for the newly consolidated entities as the data may not have been prepared for prior periods and may involve significant time and expense to reconstruct. Therefore, in the final Statement there should be an exclusion for those entities where it would be impracticable to restate prior period information.

(File Reference No. 194-B)

May 24, 1999

Page Four

Conclusion

Based on the facts and opinions presented above, we do not support the proposed Standard and urge the Board not to go forward with this accounting project. We would be pleased to discuss our comments with you in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Earl W. Baucom". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

Earl W. Baucom