

## PPG Industries, Inc. One PPG Place Pittsburgh, Pennsylvania 15272 USA

William H. Hernandez Senior Vice President, Finance

May 19, 1999

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

Re: File Reference No. 194-B

Dear Mr. Lucas:

Letter of Comment No: 44 File Reference: 1082-194R Date Received: 5/26/99

PPG Industries, Inc. is pleased to submit comments on the Financial Accounting Standards Board's (the "Board") Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Purpose and Policy" (the "Statement"), dated February 23, 1999, which would establish standards for when entities should be consolidated.

PPG Industries, Inc., a Fortune 500 company, is among the world's leading manufacturers of coatings, glass and chemical products and employs approximately 32,500 employees worldwide.

Consistent with the views expressed in our December 30, 1994 and July 15, 1992 letters to you regarding the Board's "Preliminary Views on Major Issues Related to Consolidation Policy" and the Discussion Memorandum, "An Analysis of Issues Related to Consolidation Policy and Procedures", respectively, we continue to believe that while control is an appropriate condition for consolidation, there should be an additional condition based upon a specified level of majority ownership or economic benefits. However, as the Board has unanimously rejected this predominant view proffered by a number of respondents in the past, our comments reflected on the attached document are limited to the issues on which the Board is seeking constituents' comments and suggestions.

Thank you for the opportunity to express our views. Should you have any questions regarding any of our responses, please contact Rose M. Cercone, Manager, Financial Accounting, at (412) 434-3238.

Sincerely yours,

W. Akmana

W. H. Hernandez

Attachment

Mr. Timothy S. Lucas File Reference No. 194-B May 19, 1999 Attachment

## **Definition of Control and Implementation Guidance**

Issue 1: This proposed Statement would define 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 it losses from that other entity's activities. For purposes of consolidated financial statements, control involves decision-making ability that is not shared with others" (paragraph 6). In certain respects, that definition differs from the October 1995 proposed statement that focused on decision-making powers for an other entity's "individual assets" rather than its policies and management that in turn are used to direct activities, including the use of assets. The revised definition also encompasses a more explicit condition that the decision-making powers must provide the controlling entity with the ability to increase the benefits and limit the losses that it can derive from that decision-making power. (That latter revision is similar to the explicit condition included in definitions of control adopted in the United Kingdom and by the International Accounting Standards Committee.) Does the revised definition, together with the discussion of the characteristics of control (paragraphs 10-14) and descriptive guidance (paragraphs 15-23 and 30-47), help clarify when one entity controls another entity?

We believe that the revised definition, together with the discussion of the characteristics of control and descriptive guidance, is useful in assessing when one entity controls another entity. However, guidance is lacking on special purpose entities and we believe that inclusion in the final standard of one or more rebuttable presumptions covering special purpose entities would be useful. Also, we are not in agreement with one of the circumstances identified that would lead to a rebuttable presumption of control, as discussed under Issue 2. below.

Issue 2: This proposed Statement would provide guidance for applying its definition of control. That guidance includes certain situations, which are identified in paragraphs 18 and 21 of this proposed Statement, that would lead to rebuttable presumptions of control. They are those circumstances in which an entity:

- a. Has a majority voting interest in the election of a corporation's governing body or a right to appoint a majority of the members of its governing body
- b. Has a large minority voting interest in the election of a corporation's governing body and no other party or organized group of parties has a significant voting interest
- c. Has a unilateral ability to (1) obtain a majority voting interest in the election of a corporation's governing body or (2) obtain a right to appoint a majority of the corporation's governing body through the present ownership of convertible securities or other rights that are currently exercisable at the option of the holder and the expected benefit from converting those securities or exercising that right exceeds its expected cost
- d. Is the only general partner in a limited partnership and no other partner or organized group of partners has the current ability to dissolve the limited partnership or otherwise remove the general partner.

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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 additional presumptions of control necessary for specific circumstances?

We concur with the Board's identification of specific circumstances in which the evidence of control is presumed, and we believe that the use of rebuttable presumptions of control will facilitate the implementation of a new standard that will require a large degree of professional judgment. We agree that circumstance (a), (c), and (d) identified above provide reasonable evidence of control. We do not believe that circumstance (b), "the existence of a large minority voting interest in the election of a corporation's governing body and no other party or organized group of parties has a significant voting interest," provides adequate evidence of the existence of control. This circumstance does not meet the essential characteristics of control as defined in the Statement. The ownership by an entity of a large minority voting interest (defined as 50 percent of the votes typically cast in an election of directors) in a corporation does not necessarily enable the owner to control the corporation's governing body or provide the owner with the nonshared decision-making ability to direct the use of and access to the corporation's assets. Regardless of past voting history, if the holder of a large minority interest decides to advance an agenda for the entity that is in the minority's best interest, it is much more likely that the holders of the majority interest will attend the annual shareholders meeting and vote. Also, such ownership does not provide an entity with the ability to increase the benefits that it derives and limit the losses it suffers from the ongoing activities of the corporation. We do agree that this circumstance requires an assessment of the underlying facts to determine if the definition of control in the Statement is met.

We also support the inclusion of additional rebuttable presumptions of control related to special purpose entities in order to avoid inconsistency in practice when the Statement is implemented.

Issue 3: This proposed Statement would be effective for financial statements for annual periods beginning after December 15, 1999, and all interim periods in the year of adoption. With certain exceptions, it would be applied by restatement of comparative financial statements for earlier periods. 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 special circumstances surrounding the application of this proposed Statement that would justify delaying its application to interim periods in the year of adoption?

We believe that the benefits of providing shareholders and potential investors with complete and comparative financial statements are sufficient to justify requiring, rather than permitting, that the provisions of the Statement be applied for the first and each subsequent interim period in the year of adoption.