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Kenneth L. Matheny  
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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

**File Reference No. 194-B**

Dear Mr. Lucas:

USX Corporation ("the Company") appreciates the opportunity to comment on the Financial Accounting Standards Board's (the "Board") proposed Statement, "**Consolidated Financial Statements: Purpose and Policy**" and to offer our views for the Board's further consideration.

**General Comments**

The Board has asked constituents to respond to the new definition of control and whether or not it will lead to a common understanding and application in practice and secondly if the defined presumptions of control are sufficiently clear and operational. The Board made a statement in paragraph 83 of the proposed rules which states "...the conclusions reached (in the examples presented) are not necessarily "right" rather they are reasoned judgments about control based upon available evidence at a point in time."

We believe that these rules, if adopted in their present form, will lessen the comparability and interject considerably more subjectivity from what exists in practice today. Each transaction entered into will have to undergo considerable scrutiny to determine if it involves any aspects of control via contractual interests or some other form of ownership rights of another entity. Ultimately judgment will be the deciding factor on whether or not consolidation is warranted. We do not perceive a problem with the application of legal control as it is well supported in existing literature. Rather we believe the application of the "effective control" concept will create a lack of comparability overall.

**Definition of Control (Issue 1)**

We believe that the two essential characteristics of control, as depicted in the proposed Standard, will not prove to be a better application of consolidation accounting principles than what is used in practice today. We believe that potential problems with consolidations have been effectively addressed through the issuance of FAS 94 and the specific guidance subsequently provided by the Emerging Issues Task Force (EITF) in Abstracts such as 90-15, 96-16, and 97-2.



**Definition of Control (continued)**

We recommend that the Board reconsider its criteria for consolidation and include as one of the characteristics of control the existence of “significant economic interest.” We believe that the Board should consider amending FAS 94 to include the notion of effective control to clarify that control can exist absent a majority ownership interest. EITF 97-2 also emphasizes the need for a significant financial interest as being an essential part of controlling financial interest.

**Presumption of Control of Corporations (Issue 2)**

Another recommendation would be to change from a “presumption of control” position to applying the paragraph 18(b) and 18(c) criteria as representing “**indicators**” of control. The indicators would then be taken into consideration along with ownership interest to determine if consolidation is warranted. We agree with the alternative views presented by the dissenting Board member who challenged the presence of “compelling evidence” pointing toward consolidation. We believe the arguments made by the dissenting Board member with respect to presence of “compelling evidence” are justified and that presumed control either by a large minority interest shareholder or through the ownership of convertible securities should only be used as additional indicators taken into consideration with all other facts and circumstances. We agree with the criterion stated in paragraph 18(a) regarding the existence of a majority voting interest. The presence of this criterion should be viewed as having effective control.

The underlying emphasis of this Standard is a move toward the economic unit concept and away from the parent company concept of consolidation. USX believes that the parent company concept is still the most appropriate methodology and is a conceptually sound approach. The parent company concept reflects the economic interests attributed to our shareholders. We continue to believe that the significant economic interest criterion should be a separate requirement for consolidation.

**Qualitative Characteristics**

The Board made reference to Concept Statement 2, paragraph 100, which states that:

“...To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in some particular direction...”

Concept Statement 2 also addresses the other qualitative characteristics such as representational faithfulness (subpart of reliability), relevance, and comparability. We have difficulty agreeing with the Board’s conclusion that the proposed rules will increase comparability, enhance reliability through increasing representation faithfulness, and make the financial statements more meaningful to the stockholder of the parent company. The fact that effective control is measured from period to period opens the door to consolidation in one period followed by potential deconsolidation in the next period. This potentially continual changing in the presentation of financial statements is not more reliable and certainly questions the consistency application if we change reporting practices period to period.

**Qualitative Characteristics (continued)**



We believe that credibility is lost with the financial community as well. We agree that in today's corporate environment there may be majority-owned subsidiaries that are deconsolidated due to a decrease in percentage ownership interest or through a change in control event; however, restatement due to these reasons are not an everyday occurrence.

The following illustration will help to demonstrate the impact this Standard will have on consolidated financial statements and the counterintuitive results that can result.

If a corporation becomes a general partner (GP) and holds a 1 percent interest in a limited partnership, the economic interest is equal to its 1 percent investment and the GP is paid a management fee that represents the fair value for the services rendered. The limited partnership debt is nonrecourse to the partners and is collateralized by the partnership assets. Under this proposed Standard, the corporation would be required to consolidate the limited partnership even though its economic interest is only 1 percent.

Accordingly, in its consolidated financial statements, the corporation would be required to include all of the partnership assets (in which it has virtually no economic interest), all of the liabilities (for which it has no responsibility), and 100 percent of the partnership equity (of which 99 percent belong to others).

The Board attributed considerable discussion and emphasis to the various qualitative characteristics underlying GAAP. In our example above, the end result appears to be a grossing up of assets, liabilities, revenue and expense. We strongly question how such a presentation adds value to the financial reporting process if substantial amounts do not accrue to the benefit of the parent company shareholders. In our view, this does not add to the understandability, comparability or relevance of the consolidated financial statements.

**Special Purpose Entities (SPE)**

We are unclear as to how this proposed Statement affects EITF 90-15. Financial statement preparers have looked to EITF 90-15 and have applied the consolidation requirements depicted in that Abstract since its issuance. Example No. 7 in the revised Exposure Draft indicates a fact pattern that requires consolidation of the SPE by Corporation I. We have the following questions concerning SPE's and the intention of the FASB:

1. Is the guidance in EITF 90-15 superseded by this Standard?
2. Will the lease transactions entered into with an SPE (following EITF 90-15) be grandfathered prior to the effective date of this Standard?
3. Example 7, in Appendix A, the conclusion reached indicates that Corporation I controls Corporation J (the SPE) but that Corporation I determined that the lease would qualify as an operating lease in accordance with FAS 13. The Board did not indicate how the need to consolidate such an SPE would affect lease accounting. Is it the intention of the Board to amend FAS 13 accounting to comply with the direction established by this Standard (see discussion to follow)?



**Relationship to FAS 13**

The guidance provided in EITF 90-15 requires consolidation of an SPE under certain conditions. The FASB referenced in Example 7 and 8 of Appendix A the 97% debt/3% equity scenarios. The equity at risk rule requires that the investor's equity be at risk over the life of the lease in order for the substantive residual equity investment condition to be met.

In paragraph 82 of FAS 13 the Board makes reference to the economic substance of the lessor. The discussion appears to focus on whether or not the lessee is in fact the debtor/lessee and the Board concluded by stating:

“...If a lease qualifies as an operating lease because it does not meet the criteria in paragraph 7, the Board finds no justification for reporting that it be accounted for as a capital lease by the lessee simply because an unrelated lessor lacks independent economic substance.”

We believe that the classification of the leased assets that have met the EITF 90-15 guidelines should remain classified in accordance with the criteria established in FAS 13. It is our recommendation that this proposed Standard adopt by reference the existing rules regarding an SPE used in leasing transactions and that the effects of the lease transaction should flow into consolidation unchanged.

**Interaction between other sources of literature**

We believe the Board needs to consider clearly stating for the benefit of the financial statement preparer how these proposed rules interact with existing lower level GAAP literature. We can see how the Abstract addressing participating rights versus protective rights of minority shareholders (EITF 96-16) has been incorporated through the effective control aspects of this proposed Standard. We believe as well that the principles addressed in EITF 97-2 addressing Physician Practice Management Entities, as it relates to measuring “control” via the six requirements constituting a controlling financial interest, should be incorporated into a final Standard as well. The SEC has also indicated that it applies EITF 97-2 by analogy to any situation where control can be obtained by means of a management contract.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. L. Matheny'. The signature is fluid and cursive.

Vice President & Comptroller