TEXAS INSTRUMENTS INCORPORATED

May 19, 1999

Letter of Comment No: 54
File Reference: 1082-194R
Date Received: 6/9/69

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

RE: Proposed Statement -- Consolidated Financial

Statements: Purpose and Policy

(File No. 194-B)

Dear Sir:

We appreciate the opportunity to comment on this proposal and acknowledge the significant amount of effort the Board and staff have expended in its preparation.

The draft notes that control entails the ability of one entity (the "parent") to direct the policies and management of another entity. The proposal provides four presumptions of control which would normally lead to consolidation by the "parent" of the other entity. Summarized, they are when the "parent":

- a. has a majority voting interest in the other entity, or,
- b. has a large minority voting interest and no other party has a significant interest, or,
- c. has a unilateral, and cost efficient, ability to obtain a majority voting interest through exercise of convertible securities, or,
- d. is the only general partner in a limited partnership, and no other partner can dissolve the partnership or remove the general partner.

As we have previously commented to the Board, we agree that criterion (a.) above is a valid presumption of control. We continue to believe, however, that the other three presumptions are not. Our detailed comments on these three follow.

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LARGE MINORITY INTEREST

Presumption (b.) defines a large minority interest as at least 50 percent of the votes typically cast in Board of Director elections, e.g., if historically about 80% of eligible votes are cast, half, or 40% voting interest would be considered large, while 35% would not. Our concern is with the transitory nature of this criterion. Voting blocs of other equity holders develop and disperse over time. Absent majority voting interest, a large minority holder can be outvoted when such blocs are active. Also, the number of eligible votes cast can vary significantly period to period depending on the current state of the entity. That is, when satisfied, holders opt out of voting, when disgruntled, they vote.

We strongly believe a fundamental decision such as whether or not to consolidate an entity should not be based on transitory circumstances. A fundamental concept of financial reporting, reliability, will inevitably be degraded as such circumstances change and subsidiaries enter, leave, and reenter the consolidated group.

ABILITY TO OBTAIN MAJORITY INTEREST

Presumption (c.) addresses the ability to obtain a majority position through exercise of convertible securities, when the expected benefit of conversion exceeds the expected cost.

We have several difficulties with this criterion. First is the transitory issue raised above. Convertible securities and other similar option arrangements may be exercisable at specific dates and almost always are exercisable at specific prices. As the price of the other entity's shares exceed or trail this call price during the exercise period, the economic viability of such exercise changes significantly. The result will be changes in the fundamental consolidation decision and unnecessary disruption in the financial reporting process.

Our second objection is to the implied assumption that an ability to obtain control in the future equates to a current ability to control. The combination of potentially significant financing and other costs of exercise and the transitory valuations discussed above render this assumption highly questionable. Future control does not now, and may never, result in actual control.

Third, we are uncomfortable with the subjectivity required of management in evaluating the cost efficiency of an exercise decision. The fact that exercise has not occurred to date could well indicate the cost efficiency of such exercise

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decision is not reasonably determinable. Such levels of subjectivity, when combined with the other difficulties discussed, lead us to seriously question the propriety of criterion (c.).

GENERAL PARTNER IN A LIMITED PARTNERSHIP

We have no history as a general partner in a limited partnership so can offer only anecdotal comments for criterion (d.). Intuitively, we question the logic of a general partner with a nominal interest, perhaps as low as 1%, being considered the "parent" of a partnership. While limited partners do not possess certain partnership powers, they likely have substantial residual interests. To assume a general partner with a nominal investment controls, and the other partners are little more than passive in such a circumstance strains credibility. We fail to see how the financial statement users of the general partner will be well served by consolidation of the partnership's financial statements with those of the general partner.

SUMMARY

We note that our comments are similar to the Alternative View expressed by one of the Board members (paragraphs 248 through 256).

Given the significant objections raised, both within and without the Board, we suggest the Board consider alternatives to this proposal. One alternative, which we could support, would be to retain the current guidance of ARB No. 51, as amended by SFAS No. 94, which is basically criterion (a.) -- majority voting interest. Then pursue specific areas of concern, such as Special Purpose Entities, on a targeted basis.

In summary, we are aware of no widespread dissatisfaction with ARB No. 51, as amended by SFAS No. 94 and supplemented by SEC guidance, sufficient to warrant the changes proposed, with their inherent difficulties. We, therefore, suggest withdrawal of this proposal and commencement of a more targeted approach.

We would be pleased to discuss our comments further, if desired.

Sincerely,

M. Samuel Self Senior Vice President & Controller