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Financial Accounting Standards Board
Director of Research and Technical Activities
Reference No. 194-B
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CMS Energy Corporation and Consumers Energy Company (collectively, the Company) are pleased to comment on the Exposure Draft, *Consolidated Financial Statements: Purpose and Policy*. CMS Energy Corporation, whose common stock is traded on the New York and Midwest Stock Exchanges, is a diversified international and domestic energy company also engaged in independent power production, natural gas transmission, interstate transportation, storage and processing, energy marketing, services and trading, oil and gas exploration and production, and international energy distribution. CMS Energy Corporation's consolidated assets are currently \$14 billion, and annual operating revenues are currently \$6 billion. Consumers Energy Company, the principal subsidiary of CMS Energy Corporation, is the nation's fourth-largest combination electric and gas utility.

The Company commends the Financial Accounting Standards Board's (FASB) efforts to establish accounting standards for consolidated financial statements, and the consideration given to the concerns of its constituency as provided in previous comment letters concerning this subject. In fact, many concerns addressed by the Company in previous comment letters have been addressed and incorporated into this most recent Exposure draft. While the Company appreciates the incorporation of previous changes suggested, we would like to offer further comments in regard to the definition of control.

As defined by the exposure draft, "control involves the presence of two essential characteristics: (a) a parent's non-shared decision-making ability that enables it to guide the ongoing activities of its subsidiary and (b) a parent's ability to use that power to increase the benefits that it derives and limit the losses that it suffers from the activities of that subsidiary." The exposure draft further states that a minimum level of ownership is not a required characteristic of control.

We believe this definition of control is flawed. Specifically, we do not concur with the proposal that a controlling entity need not have a significant equity interest in a subsidiary, and we do not believe that financial statement users will benefit from the potential reporting instabilities regarding which entities will be included or excluded from consolidated financial statements in a given reporting period. In fact, the most probable effect of this control-based exposure draft approach will be the substitution of what is currently a simple and operational consolidation model with a highly subjective approach which will be difficult to apply in practice, and which most likely will result in more inconsistencies in how companies report their financial results.

While we continue to agree with the presumptions as to the existence of control in instances of legal control and the unilateral ability to obtain a majority voting interest or the rights to appoint a majority of the corporation's governing body, as stated in paragraphs 18a and 18c, we do not agree with the guidance in paragraph 18b, where the conclusion as to control for a minority investor is based on factors outside of that investor's control, including the apathy of other shareholders. This guidance could lead to an entity being classified as in control one period, but not in control the next period, which clearly would lead to further inconsistencies and reduced comparability in reporting. In our opinion, control must be in the form of a unilateral ability of the parent to exercise control.

In our opinion, the right to a majority of the economic benefits flowing from a subsidiary is a critical condition for consolidation. When a parent company controls a subsidiary through the criteria set forth in the exposure draft, combined with its right to a majority of economic benefits, consolidated financial statements appropriately reflect the parent-subsidiary relationship and the parent's beneficial economic interest in the cash flows and net assets of the subsidiary. As the parent company's right to these economic benefits declines, the subsidiary's assets, liabilities, revenues and expenses become less relevant to the parent company's shareholders. A criteria of majority economic benefit would help ensure that the consolidation policy will be applied on a consistent basis and prevent the manipulation of financial statements. Consolidation of financial statements without a criteria of majority of economic benefits may be misleading. We believe that the exposure draft in its current state will create inconsistencies in areas where current practice is uniform and will not improve those limited areas where further guidance may be needed. Consequently, we do not believe the exposure draft is an improvement over the current standards which use objective, rather than subjective, measures for determining consolidation requirements.

Should the FASB decide that a majority economic benefit not be a criteria for determining control and subsequent consolidation policy, perhaps consideration should be given to consolidating all affiliates based on the proportional benefit method. For instance, if an entity is entitled to 35% of the economic benefits and net assets of another entity upon dissolution, then 35% of the financial statements should be consolidated.

As always, the Company appreciates the opportunity to express our views and would welcome the opportunity to discuss these issues with the Board.

Sincerely,

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Consumers Energy Company

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