

Letter of Comment No: 13
File Reference: 1082-194R
Date Received: 5/25/99

May 24, 1999

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference No. 194-B
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RE: Proposed Statement of Financial Accounting Standards "Consolidated Financial Statements: Purpose and Policy" (the "Exposure Draft")

Dear Mr. Lucas:

Thank you for the opportunity to comment on the Exposure Draft. BANK ONE CORPORATION, with assets of over \$250 billion at March 31, 1999, is the nation's fourth-largest banking company and the largest Visa/MasterCard lender. In addition to our banking and credit card operations, we have many other subsidiaries, as well as many other investments, interests, and contractual relationships in or with an assortment of legal entities. In our opinion, a significant need for new consolidation guidance does not presently exist; furthermore, implementation of the Exposure Draft as a final standard would not represent an improvement in current practice. On the contrary, we believe the Exposure Draft would create an accounting morass of application, procedural, and reporting problems that would pale in comparison to existing consolidation policy practice problems.

Overview

We cannot support the issuance of the Exposure Draft in its current form. We believe it is fraught with implementation issues that would unnecessarily create diversity in practice and make financial statements less meaningful. The ambiguity of the definition of control and the greatly varying facts and circumstances that exist in practice are a recipe for accounting and reporting disaster. The amount of time and energy that would be required on the part of the FASB, EITF, SEC, auditors and accountants in developing guidance and resolving issues would be excessive, and the result would be very difficult to apply. Even if a majority of the consolidation policy issues could be resolved, the

remaining consolidation procedural issues that the Board has determined not to deal with at this time will be problematic. We believe that consolidation procedures based on the policy set forth in the Exposure Draft will be enormously difficult to develop, apply, and understand and, in many cases, will result in nonsensical financial reporting. For example, a company that is required to consolidate another entity due to control in spite of having no ownership interest would likely produce financial results that are virtually meaningless.

Moreover, implementation of the Exposure Draft will result in the creation of “on again, off again consolidation accounting” based on ever changing facts and circumstances that are often out of the parent’s control. For example, consolidation of a 35 percent owned entity by a parent because fewer than 69 percent of the shares are voted in year one, could easily change in year two when more than 70 percent of the shares are voted due to the existence of more substantive issues or changes in business operations. In many cases, such changes take place without the involvement of the “parent” that is supposed to control the entity. Such financial statements will have little relevance to financial statement users. We do not believe the Board will find an appropriate resolution to this issue within the context of the definition of control used in the Exposure Draft. As indicated in our prior responses the bright-line test for consolidations already exists in practice and the Board should spend its time and energy in dealing with specific transactions (i.e. special purpose entities).

Definition of Control

We believe that the definition of control used to determine consolidation should include a combination of control and the existence of significant or a majority ownership in the operations of the subsidiary, through which the parent participates in the economic risks and rewards of the entity being consolidated. While current accounting guidance is not perfect, it conforms to this concept and provides meaningful financial reporting in most situations.

Furthermore, we do not believe the Exposure Draft’s concept of control is operational in practice, even though the concept may appear theoretically superior in some respects. We also believe it would be extremely difficult, if not impossible, to audit the application of the Exposure Draft’s definition of control. We believe the definition is too vague; in fact, it is so unclear that it can only be explained by example. We believe the examples provided in the Exposure Draft are primarily the result of the Board’s interpretations of when consolidation is appropriate based on selected facts and circumstances rather than the result of actually applying the Exposure Draft’s definition of control. In other words, we believe the Exposure Draft does not necessarily articulate the concept the Board intended to communicate. When the facts and circumstances vary in the slightest from the examples provided, application in practice will undoubtedly differ from what the Board intended.

We believe it is very difficult to conceptualize “control” when the parent need only have the ability to control, not necessarily exercise it, on one hand, yet conclude that control exists in another venue when control is being “exercised” but only exists because other investors don’t exercise their right to vote which could remove that control. The different bases used to evaluate control highlight the contradiction between the Exposure Draft’s

definition of control and its examples. Consolidation based on a “majority voting interest” or the “right to obtain a majority voting interest” employs the notion of unilateral control while consolidation based on a “significant minority interest” and a low turn out of shareholders to vote for board members employs a different notion of control that is not unilateral. Consolidation of a limited partnership by a general partner with little ownership interest or the consolidation based on control with no ownership interest based on a notion of intangible benefits employs a difference that is difficult to explain or evaluate.

We are also concerned that it is not clear, either in the definition or the examples, whether a qualified special purpose entity as defined in FASB 125 would need to be consolidated. It is likely that the Board chose not to address this issue, as well as many others, because the conclusions or examples will vary greatly depending on the relevant facts and circumstances. We believe it is likely impossible to provide sufficient examples to cover the bulk of qualifying special purpose entities in current practice given the range of different facts and circumstances.

The control concept would be similarly challenging to apply to special purpose entities used in lease, real estate and other similar transactions. Application to many partnerships, limited partnerships, trusts and other entities for which specific examples have not been provided for in the Exposure Draft would also be difficult. Providing sufficient relevant guidance and examples would, in our opinion, be unfeasible.

Ability to Increase Benefits and Limit Losses

The Exposure Draft’s notion of benefit that must accompany the existence of control is inconsequential, in that any time an entity is deemed to have “control” some “benefit” likely exists. The Board highlighted this belief in paragraph 214, which states that “...paragraphs 14 and 36-38 discuss ways in which a controlling entity may derive benefits from the assets and ongoing activities of a subsidiary other than the benefits it obtains through an ownership interest or residual interest in its earnings or net assets.” Given that benefit likely exists anytime control exists, the Exposure Draft’s definition of control has not changed from the initial exposure draft in that benefit continues to play almost no role in the determination of consolidation. Even if control of an entity typically involves some other type of benefit as the Board suggests, we do not believe that such benefits are always sufficient to justify including all of another entity’s assets, liabilities, revenues, expenses, etc. in the consolidated financial statements. Benefits other than ownership would be difficult or impossible to measure, such as synergies between the subsidiary and the parent or its affiliates as stated in paragraph 14 of the Exposure Draft. Consolidation based on these “other benefits” is not a logical conclusion for the “parent” or the “minority interests.” We believe that anything other than disclosure of a relationship where these “other benefits” exist would be inappropriate and misleading.

Significant Financial Benefits

We believe that an entity should have a significant or a majority of the financial benefits generated by the another entity before consolidation should be considered. The Exposure Draft states in paragraph 14, that “...an ownership type of benefit or a minimum level of

ownership is not a required characteristic.” We question how consolidation of the operations of an entity for which little or no ownership benefit by the parent exists could provide useful or meaningful information for financial statement users. We do not agree with the Board’s assertion that a minimum level of ownership is not a required characteristic and we understand that a majority of the respondents to the initial exposure draft expressed a similar view. The view most often expressed was that control and a majority or significant ownership interest was appropriate criteria for consolidation.

The Exposure Draft further states in paragraph 14, that “...a parent also can increase its benefits through other means, for example, by initiating actions that result in revenue enhancements or cost savings through synergies between the subsidiary and the parent or its affiliates.” This type of benefit would be very difficult to measure and provide for some interesting, if not totally confusing, financial reporting disclosures. We believe that the consolidation of an entity under such circumstances will only serve to confuse financial statement users, auditors and the parent’s accountants. We believe that consolidation should only be considered or required if, in addition to control, the parent shares in a significant portion of the benefits generated by the entity, such as 25 percent or more of the entity’s profits. We do not believe it is meaningful for a “parent” to consolidate the operations of an entity when it is entitled to an insignificant amount of the risks and rewards of ownership from those operations. The smaller the ownership interest, the less meaningful the consolidation of such an entity becomes.

We also question the usefulness to minority shareholders of consolidated financial statements of a consolidated entity when the parent has little or no ownership interest. In many cases, the parent will have numerous consolidated entities from which the minority interest holders must attempt to find meaningful disclosures.

Qualifying Special Purpose Entities

We understand the Board would like consolidation policy to be the same for both special purpose entities and other broad purpose entities. However, we believe such an undertaking will be extremely difficult; that is, it may not be possible to mesh the concepts of FASB 125 and the Exposure Draft when applying the Exposure Draft’s definition of control. As you know, application of FASB 125 in practice has been very difficult and has resulted in the FASB issuing recurrent question and answer guidance. The addition of vague, complicated, and problematic accounting consolidation guidance to the asset transfer structures that exist in practice could result in an unnecessarily burdensome and costly process change for the securitization industry. Subjecting securitization transactions to additional process changes to avoid consolidation so closely after the process changes brought about by FASB 125 would be wholly inappropriate. At a minimum, the Exposure Draft should specifically exclude qualifying special purpose entities under FASB 125 from consolidation.

We encourage the Board to consider the overwhelming need to provide additional clear and meaningful examples for special purpose entities should the Board determine to proceed with the Exposure Draft, including those that are not related to assets transfers under FASB 125. The Board should also identify specific circumstances in this area where the consolidation of a special purpose entity’s assets and liabilities is not required.

Such examples would likely supercede various EITF guidance, as well as current accounting based on industry practice.

Consolidation Procedures

While we understand that the Board has determined not to address consolidation procedures currently in an effort to finalize consolidation policy, we question whether it makes sense to deal with the issues separately. The application of the Exposure Draft using consolidation policies in current practice will yield some unusual reporting. More importantly, the consolidation procedural issues highlight the practical problems with the consolidation concept proposed in the Exposure Draft. We believe the Board should not finalize the Exposure Draft before resolving the procedural issues. The fact that these issues are highly controversial is not a good reason to postpone their resolution.

We did not support the consolidation procedures proposed in the initial exposure draft, including the proposed display of minority interest as a component of equity.

Banking Industry

The Exposure Draft would have a significant adverse effect on the banking industry because of the level of regulatory capital that would have to be provided by the parent company for the assets of the additional entities that would have to be consolidated. We believe that providing capital for such assets would be unwarranted because the consolidating parent company in many instances does not bear the risks of ownership of such assets. Regulatory capital rules currently require a parent company to provide capital for those instances where risk is assumed but consolidation is not required. We believe this capital issue highlights a flaw in the consolidation theory employed by the Exposure Draft.

Conclusion

We cannot support the Exposure Draft in its current form. Current accounting guidance in this area provides an appropriate litmus test for consolidation and results in meaningful financial reporting in most circumstances. We would recommend that the Board drop its pursuit of an expanded concept of control based on the presumed ability to achieve dominance. The Board should instead focus its efforts on clarifying issues relative to specific transactional areas (i.e. special purpose entities) where there is diversity in practice.

We appreciate your consideration of our views, and would be glad to discuss these issues further at your convenience.

Sincerely,

(s) William J. Roberts

William J. Roberts
Senior Vice President/Controller
BANK ONE CORPORATION