

Peter E. Nugent
Vice President, Controller

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February 7, 1996



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

File Reference 154-D

Dear Mr. Lucas:

Merck & Co., Inc. is a New Jersey corporation with a worldwide organization engaged primarily in the business of discovering, developing, producing and marketing products and services for the maintenance or restoration of health. We would like to provide you with our thoughts on the Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Policy and Procedures."

As we have indicated in previous correspondence, we generally support the Board's view on the concept of control as applied to consolidated financial statements. We support most of the proposed standards for consolidation and reporting financial statements in the Exposure Draft and believe the new standard will generally improve the application of consolidation principles. We would like to comment on a few points where we believe the Board's conclusions may need to be further deliberated.

The revised definition of control "to use assets just like the controlling entity can use its own assets" continues to be as unclear as the previous definition "to achieve the objectives of the controlling entity." This definition will be difficult to apply in situations where a "parent" may have more than 50% ownership and controls day-to-day operations of an entity for its primary business purpose but requires concurrence of other owners (i.e., a "super majority") for material nonrecurring or unusual events such as changing to a new line of business, major acquisitions, or major divestitures. If a "parent" controls the use of an entity's assets but the benefit of that use becomes restricted, the application of the proposed definition again becomes difficult.

The definition would be less difficult to interpret if it included the express power to access the financial benefits of the controlled entity, subject to the limits set by the nature of the controlling entity's interest. Absent the power to access (or direct) the financial benefits, we do not believe a subsidiary should be consolidated regardless of whether the assets can continue to be "used." For example, a controlled foreign subsidiary may unexpectedly be restricted by the local government as to payment of dividends or

Mr. Timothy S. Lucas
February 7, 1996
Page 2

settlement of intercompany accounts. Although the use of assets can still be controlled by the parent to continue the subsidiary's business, the parent does not have the power to access or direct the financial benefits of control and therefore, we do not believe the subsidiary should be consolidated (unless the restriction is deemed to be only temporary).

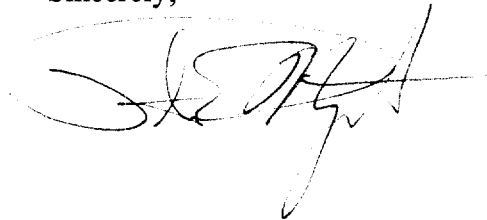
We are also concerned with the emphasis that would be given to minority interests in subsidiaries under the standards of the Exposure Draft. We strongly believe that the proposed presentations of minority interest's share of net assets and income lack any relevance to the reporting entity financial statements, will be misunderstood and will reduce the value of financial reporting. We do not believe that the reporting entity's equity and net income should include the parent and 100% of its subsidiaries if they are not 100% owned. The reporting entity should present equity and net income as it is relevant to the reporting entity's owners; i.e. the parent company and its share of subsidiaries net assets and income.

The proposed presentation of net income that includes the minority interest share is meaningless to the owners of the reporting entity, the capital markets and the minority shareholders. It is also potentially seriously misleading. We do not believe that the widely accepted and prevailing practice of presenting equity and net income as they relate to the owners of the reporting entity should be changed because of conceptual difficulties in the definitions of elements of financial statements (which seems to be the impetus behind the proposed standards of the Exposure Draft). We also do not believe that the "broader view" of the reporting entity (to include the residual owners of subsidiaries) is an improvement to the "narrower view" of long-established prevailing practice.

Our final concern relates to the treatment of subsidiaries that are investment companies. The Exposure Draft continues the APB 18 exemption of its standards to investment companies that record their assets at estimated fair values. However, paragraph 31 of the Exposure Draft could be interpreted to require that if a parent company owns an investment company (i.e. a "specialized industry"), the investment company subsidiary should be consolidated using generally accepted accounting principles of the parent. We believe that investment company subsidiaries should be excluded from the scope of the policy for the same reasons that they are excluded if they are parent companies.

We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. Lucas', written over a faint circular stamp or watermark.

cc: Lewent