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Director of Research and Technical Activities File Reference 154-D Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, Connecticut 06856-5116

Dear Sir:

CIGNA Corporation is pleased to comment on the FASB's Exposure Draft (ED) entitled <u>Consolidated Financial Statements</u>: Policy and <u>Procedures</u>. Consistent with our comments in response to the Preliminary Views previously issued by the Board in 1994, we agree that there may be diversity in consolidation practice which could make additional guidance useful, however, we are concerned with several substantive issues as outlined below.

Consolidation Criteria and Definition of Control

We disagree with the requirement to consolidate based solely on a definition of control that does not consider the right to a majority of the economic benefits of an investee. Although the definition of control was modified from the Preliminary Views document to incorporate the concept of deriving benefits from the assets, the revision is not sufficient. Instead, we agree with the Alternative View expressed in paragraphs 139-144 of the ED that an investee should only be consolidated where the investor has the ultimate right to a majority of the cash flows or other economic benefits (or risks) of the underlying assets and liabilities. We recommend that the Board reconsider its conclusions and consider the Alternative View in the development of a final standard.

If the Board decides to retain non-voting control as the criteria for consolidation, we recommend that the definition of control be expanded to include the following: 1) some minimum level of rights to economic benefits, 2) day to day management control of the entity, and 3) control of the Board of Directors. Using these expanded criteria would achieve the Board's objective to define control of an entity in order to provide consolidated financial statements with a fair presentation of the resources available to the reporting entity and its shareholders.

General Partners in Limited Partnerships

Like the Preliminary Views, the ED would require a sole general partner in a limited partnership owning as little as a 1% equity interest to consolidate the partnership if the general partner, for management convenience, effectively controls the partnership. We strongly disagree with this view, and again would urge the Board to consider the Alternative View in paragraph 162 that it is inconsistent to require consolidation by the general partner, while not requiring trustees and mutual fund managers, who are in similar economic circumstances, to consolidate their trusts and mutual funds. Granted, the general partner is entitled to some benefits, but this is typically limited to its ownership interest (in this case 1%). We reject the argument made in the ED that a general partner can use the assets of the partnership to its disproportionate advantage. In an investment limited partnership, the general partner is typically the manager, and, as a result, is operating in a fiduciary capacity. The general partner theoretically is not able to structure transactions with the partnership assets to solely benefit the general partner to the detriment of limited partners.

The FASB's Statement of Concepts No 1. states that financial reporting should provide information about an enterprise's economic resources, obligations, and equity. We do not believe that relevant information is reported to shareholders when assets and liabilities that can not be used to the benefit of those shareholders are reported in the consolidated financial statements. In fact, we believe that such consolidations would distort financial statements and operating ratios. This is the basis for excluding trusts and mutual funds from their managers' financial statements, and it is equally applicable for a general partner of a limited partnership. Requiring a minimum equity ownership level would solve the problem, and as suggested above, we strongly urge the Board to include such a minimum ownership percentage provision in the final standard.

Temporary Control

The ED limits the use of the temporary control exception based on management's intent at the date of an acquisition. In essence, the Board is requiring management, at the time of an acquisition, to make a one-time election, and all subsidiaries so acquired will continue to be consolidated even if, at some future date, management determines that it intends to dispose of such an entity. We believe that a more meaningful presentation would be to deconsolidate controlled subsidiaries when management has decided to dispose of an entity regardless of when such a decision is made. A deconsolidated presentation, using a APB 30 approach, most effectively communicates the ongoing resources of the reporting entity.

Separate Accounts

In the insurance industry, separate accounts are created to allow contractholders, such as pension plans, to participate in a variety of specific investments not subject to typical investment restrictions placed on insurance entities' general assets. SFAS No. 60 currently governs the accounting and reporting for separate accounts in a two-line presentation for separate account assets and liabilities. The ED does not mention separate accounts and does not indicate that SFAS No. 60 is to be amended by these proposals.

To clarify the application of the ED for separate account reporting by insurance entities, we recommend that separate accounts reported at market (under paragraph 54 of SFAS No. 60) be included in the exclusions of paragraph 4. However, we believe that separate accounts that are not reported at market (because of guaranteed investment returns) should be evaluated under the consolidation criteria (including the discussions in Appendix B and our changes recommended above), in order to determine whether consolidation is appropriate.

Presentation of Noncontrolling Interest

We agree with the ED that a noncontrolling interest in an entity does not meet the definition of a liability. However, to include it in common shareholders' equity of the reporting entity violates the Statement of Concepts since that noncontrolling interest does not have an equity interest in the reporting entity. In addition, such a presentation could be distortive, because total common shareholders' equity is many times presented as a single total in financial highlights. We recommend that a noncontrolling interest be presented between liabilities and equity which may require an amendment to the Statement of Concepts.

We also disagree with the approach of the ED that would include noncontrolling interest in net income, and then subtract it to arrive at net income attributable to the controlling interest. As segment income is presented on a pre-tax basis, inclusion of a significant noncontrolling interest in such segment income would be distortive because the segment is not entitled to receive income of the noncontrolling interest. We also believe the presentation of two amounts for net income will be confusing for many users of financial statements. We recommend that a noncontrolling interest be deducted prior to pre-tax income.

Step Acquisitions

Lastly, we disagree with the approach outlined the ED that requires subsequent purchases of additional interest in an entity after control has been achieved to be accounted for as equity transactions (ie like treasury stock). The proposed treatment would mean that otherwise identical acquisitions would be accounted for differently if the first was structured in one transaction, while another was structured in several steps. This distinction seems to base the accounting treatment on legal form over economic substance. We believe that such purchases should be considered additional investment in the entity with associated goodwill appropriately recognized.

In summary, we are concerned with key components of the Board's proposed changes to the criteria and procedures for consolidation. We have not perceived that financial statement users consider either the current criteria, based on majority voting interest, or current procedures for reporting noncontrolling interest to be deficient. In fact, current consolidation policy appears to be well understood and accepted. In this light, our recommendation would be to continue with the criteria in ARB 51 and SFAS 94 and focus the ED on areas that are not currently clear in the accounting literature.

If you have any questions regarding these comments, please call me.

Very truly yours,

Gary A. Swords

Chief Accounting Officer

CIGNA Corporation