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January 16, 1996

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

Dear Mr. Lucas:

We at Ciba-Geigy Corporation wish to comment on the FASB's October 16, 1995 Exposure Draft of the Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Policy and Procedures".

To serve as an introduction, Ciba-Geigy Corporation, known as Ciba, is a leading U.S. biological and chemical company, dedicated to fulfilling needs in healthcare, agriculture and industry with innovative products and services. Headquartered in Tarrytown, New York, Ciba employs over 15,000 people nationwide. The company maintains divisional headquarters, production plants, administrative facilities, subsidiaries, regional sales offices and distribution centers throughout the U.S. The U.S. Corporation is a wholly owned subsidiary of Ciba-Geigy Limited, a publicly owned company headquartered in Basle, Switzerland and is the largest Ciba company, generating \$5 billion in revenues or nearly one-third of worldwide sales.

Consolidation Policy

Discussion of Effective Control - (Paragraphs 14 and 151 to 159)

We support the current environment which employs a presumption of control when ownership interest exceeds 50% because the business community has frequently employed the current guidelines to distinguish its core businesses from its investments. In addition, the guideline of legal control has been used to

delineate active from passive participation in the operations of an investee. We also believe that situations do exist, irrespective of ownership interest, that may indicate effective control of an investee. However, the items specified in paragraphs 14 and 151-158 should be categorized as **potential indicators** of effective control (versus presumed) and should be employed as a guideline when evaluating whether or not the particulars of an investment are tantamount to effective control. For example, an ownership interest may exceed 40% (with no other significant investors) but there may also be mitigating circumstances such as contractual obligations ensuring an investee's independence which would clearly negate effective control. For your information, we have attached excerpts from Ciba-Geigy's Internal Accounting Standard "Business Combinations" which defines the Corporation's Consolidation Policy and further indicates situations where the policy is not determined wholly by ownership interest.

We further feel that, from a practical standpoint, the implementation of the presumed "Effective Control" criteria could also confuse and unnecessarily complicate current consolidation policy. For example, the new methodology could increase the potential for multiple investors to fully consolidate their respective "controlling interests" in an investee. In addition, presumed "Effective Control" (specifically paragraphs 14(b) and 152) could cause erratic applications and frequent changes between equity accounting and full consolidation due to changes in ownership or operating philosophy.

In order to clarify Management's intentions and to address the control issues the Board is confronting, we would also support additional footnote disclosure to the holder's financial statements incorporating a discussion of control indicators (as specified in paragraphs 14 and 151 to 159) disclosing the existing relationship with the investee and the holder's future plans.

Should the Board adopt this statement as currently drafted, we would request prospective application of the presumed "Effective Control" criteria to avoid penalizing those entities that previously relied solely on the legal distinction to delineate investments from core businesses.

Reporting Noncontrolling Interest in Subsidiaries (Paragraphs 22 to 25 and 101 to 106)

We agree with the majority of the respondents to the discussion memorandum who supported displaying the noncontrolling interest in the statement of financial position between liabilities and equity. We believe that the current practice is preferable as the minority interest is not technically a liability and may confuse investors and complicate financial ratios if categorized as a component of equity.

Special Purpose Entities - SPE (Paragraphs 195-202)

Due to the complexity of SPE transactions and the Board's current activities with the Securitizations Project, we feel that incorporating SPEs in this statement is inappropriate and too broad an interpretation of consolidation policy. We also feel the current methodology for assessing the accounting treatment for leased property is satisfactorily addressed in SFAS No. 13, Accounting for Leases. We are concerned that interposing the rules set forth in the Exposure Draft in tandem with SFAS No. 13 will lead to unintended and misleading results.

In conclusion, we appreciate this opportunity to express our opinion. We hope you find our viewpoint informative and persuasive. We understand the underlying need and support your effort for establishing sound and equitable standards for the preparation of consolidated financial statements. We are also aware of the control issues the Board wishes to resolve. In this regard, we hope our comments provide practical alternatives to consider when drafting the final standard.

Yours truly,

Philip T. Murphy

Manager, Technical Accounting

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Basic Rules of Consolidation

Fully consolidated are units in which Ciba-Geigy has "control". Control is assumed when the company's investment in the unit is above 50%.

Units where Ciba-Geigy has "significant influence" are consolidated through the equity method. Significant influence is assumed when the investment is from 20-50%, and includes Joint Ventures (such as 50:50).

Finally, units where Ciba-Geigy has neither "control" nor "significant influence" are not consolidated but are maintained at the lower of cost or market value.

Exceptions to the Basic Rules of Consolidation

1) Inactive companies

Companies which are "dormant" are maintained at cost.

2) Companies held pending liquidation

Companies which are held for liquidation are kept at lower of cost or expected liquidation value.

3) Other non-consolidated majority participations

If there is a lasting, severe impairment of management control or of the ability to remit funds from a majority owned affiliate, consolidation should be dropped. In such cases, the appropriate accounting treatment is "lower of cost or market".

4) Minority investments which are consolidated

In certain cases, management control is assumed to exist although Ciba-Geigy (directly or indirectly) holds less than the majority of shares of a company. Such cases should be rare.

- Management contracts which transfer management to Ciba-Geigy.
- Senior management is elected by Ciba-Geigy.
- Inclusion of the company into the managerial frame of Ciba-Geigy, for instance, the adoption of internal regulations of Ciba-Geigy such as safety, management development, approval procedures etc.
- Inability or lack of interest of the other shareholders to prevent Ciba-Geigy from assuming actual control, e.g., a very large minority participation in a publicly quoted company.

5) Impairments in companies with "significant influence"

If there is a lasting, severe impairment in exercising "significant influence" in a company where Ciba-Geigy owns between 20 and 50%, the investment is accounted for under the "lower of cost or market" concept. Such impairments can be caused by:

- External factors, e.g., the inability to remit funds
- Relationship with the partner(s) for which indications are:
 - management contracts transferring management to a partner
 - the company is treated as a subsidiary by the other partner
 - important operational and/or strategic decisions which would affect Ciba-Geigy are made without consultation or against the wishes of Ciba-Geigy
 - Ciba-Geigy cannot obtain the necessary financial information to account for the investment under the equity method. In this case, neither timely information nor adjustments to the accounts are available although judged necessary