FPL GROUP

FPL Group, Inc., P.O. Box 14000, Juno Beach, Florida 33408-0420

Letter of Comment No: 76
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Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft "Consolidated Financial Statements: Policy and Procedures"
File Reference 154-D

Dear Sir:

FPL Group, Inc. (the Company) is pleased to respond to the Exposure Draft (ED) on Consolidated Financial Statements: Policy and Procedures. The Company, a public utility holding company, is the parent of Florida Power & Light Company, one of the largest investor-owned electric utilities in the nation, serving about half the population of Florida. The Company is also the parent of other diversified non-utility businesses.

We have commented on the various stages of the consolidation policy and procedures project and have expressed opinions on a number of issues that although dismissed by the Board, are consistent with those expressed by a majority of the respondents. Our concern is that should the Board not listen to its constituents, the ultimate goal of the standard setting process will be jeopardized and result in the development of accounting principles that are not generally accepted.

With regard to this ED, we are concerned with several aspects of effective control as well as the Board's rejection of the parent company concept. We continue to believe the consolidated financial statements should be prepared primarily for the benefit of the stockholders and creditors of the parent company.

Consolidation Policy

Again we express our view that control and level of ownership are two separate and necessary conditions for meaningful consolidation of investee financial statements. This same conclusion was reached by a majority of the respondents to the FASB's 1991 Discussion Memorandum (DM). We believe control alone is not sufficient to justify consolidation. The controlling entity must also have the right to enjoy a substantial amount of the benefits derived from the control of assets of another entity. Reporting revenues, expenses, assets and liabilities that will not directly effect the parent company owners and creditors lacks relevance. We do not, however, support proportional consolidation. Rather, we believe consolidation of an investee's financial statements is appropriate when there is meaningful risk and reward to the parent's stockholders as evidenced by both their participation in significant residual benefits and the parent company's power to direct the subsidiary's operating and financial activities.

Control of an Entity and Assessing the Existence of Control

The discussion of effective control in paragraph 14 has left us with several concerns relating to its application, five specific concerns are as follows:

Transitory Nature of Control - If consolidation can be based simply on the presumption of effective control as indicated by nominating directors that are ultimately elected (paragraphs 14 (b) and 180-181), effective control could easily shift to another entity or coalition in subsequent elections, and back again. The subsidiary's financial statements would be consolidated in one period but not another. In such a circumstance, the usefulness and credibility of those financial statements would be highly doubtful.

Control Based on Inaction of Others - Paragraph 14 (a) indicates a presumption of control in the case of a large minority voting interest and no other significant organized interest. We are concerned that this provision suggests a level of control over the actions of others that may not exist. We see the potential for effective control - and therefore consolidation - shifting between parties as issues rise or fall, stimulating others to take action or not. The result would be similar to that noted above: inconsistent reporting, undermining investor confidence.

Consolidation with Insubstantial Residual Ownership - Consolidation by a sole general partner of a limited partnership may result in confusing financial reporting, particularly in cases of insubstantial ownership. It is not uncommon for a sole general partner to hold one percent (or small) ownership interest in a project. Reporting all partnership revenues and expenses, followed by removal of 99 percent (or essentially all) of partnership earnings does little to enhance the value of the income statement. The nature of the general partner's investment and the related risks and potential rewards can be more appropriately addressed through disclosure.

Implied Support - We support the accounting indicated in paragraph 19 (i) of APB 18 relating to the suspension of loss recognition when the investor's share of losses has reduced the investment to zero (absent any funding commitment). We are concerned that a less than majority owner deemed to have effective control of an entity, and therefore required to present consolidated financial statements, could imply to the parent company investors a greater degree of support of that investee than really exists. Also, should the entity be de-consolidated if the investment is reduced to zero?

Nature of Control - Paragraph 10 of the ED discusses the exclusionary nature of control. This concept appears inconsistent with the concept of effective control as it is discussed in paragraph 14. For example, if Entity A delegates its control to Entity B, paragraph 10 indicates that Entity A is still the controlling entity. Wouldn't Entity B now have effective control? Can control shift to Entity B if rather than delegating control to Entity B, Entity A simply does not vote in the election of directors? Also, does legal control always result in consolidation? Assume, for example, a 51 percent or greater owner with largely investment objectives agrees to a director and management team proposed by another owner that has significant operating expertise. It appears in paragraph 180 that if a minority owner's slate of directors is elected, through whatever means, that minority owner can be viewed as having effective control. In such a situation, one entity would have legal control but another entity has effective control. Who should consolidate?

Parent Company Concept

We are troubled by the Board's rejection of the parent company concept. As recognized in Appendix A to the ED, the parent company concept reports noncontrolling interests and changes in a parent's ownership interest differently from that proposed by the Board. We disagree with the Board's proposals.

Reporting Noncontrolling Interest in Subsidiaries

The current predominant accounting practice is to present the noncontrolling interest as a separate classification between liabilities and stockholder's equity in the balance sheet and as a deduction of income attributable to the noncontrolling interest in computing net income in the income statement. We favor this presentation based on the concept that a noncontrolling interest is not a liability of the consolidated entity, nor does it represent an equity interest in the parent. Consolidated equity should represent ownership rights to the residual interest in the parent's net assets. With respect to the income statement, consolidated net income should represent that amount attributable to the capital of the investors of the parent.

Changes in a Parent's Ownership Interest in a Subsidiary

The stockholder of a wholly-owned subsidiary has an interest in each of the operating assets and liabilities of the entity. When that stockholder agrees to sell a portion of the entity, the character of the assets owned has been converted from an interest in an operating asset to cash or other financial instrument. We believe this represents a real economic change and not an exchange for a similar productive asset or an equivalent interest in the same or similar productive asset. Accordingly, this re-characterization is the culmination of the earnings process and should result in gain or loss recognition.

Conforming Accounting Policies and Fiscal Periods

Conformity of accounting policies to those of the parent should be permitted but not required, which is the majority view of respondents of the DM. The use of generally accepted, alternate methods of accounting among affiliated companies is no different than that allowed among unaffiliated companies. In a regulated environment, there are a number of different policies among the affiliated companies due to different regulatory jurisdictions and commissions involved. These differing policies may provide better information for the reader, and therefore, should not be prohibited. Further, we do not see the benefit or appropriateness of requiring one accounting policy where alternatives are allowed, particularly where companies may be in substantially different industries. A parent may invest in a company that has different operating characteristics and follows accounting practices consistent with other companies in that industry. To adjust that investee's accounting creates a difference that destroys comparability and results in a contrived accounting contribution that is an inappropriate characterization of that company's operations.

We thank you for the opportunity to respond to this ED. Your consideration of our comments is appreciated.

Sincerely,

K.M. Davis
Controller and
Chief Accounting Officer