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May 12, 1999



Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: 71
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File Reference 194-B

Dear Mr. Lucas:

Merck & Co., Inc. is a New Jersey corporation with its principal place of business at One Merck Drive, P.O. Box 100, Whitehouse Station, New Jersey 08889-0100. The Company is a worldwide research-driven company that discovers, develops, manufactures and markets products and services for the maintenance or restoration of health.

We are pleased to provide you with our comments on the proposed Statement of Financial Accounting Standards, *Consolidated Financial Statements: Purpose and Policy*. In general, we continue to support the Board's efforts to establish consolidation principles based on control. More specifically, in response to Issue 1 identified in the Exposure Draft, we believe the Board's revised definition of control more appropriately embodies the purpose of consolidated financial statements. A parent company's control over the policies and management of a subsidiary, as opposed to its individual assets, encompasses a broader concept of control which we believe is necessary to include a separate legal entity as part of a single consolidated reporting entity. Although control over a subsidiary's individual assets, as it was defined in the October 1995 Exposure Draft, implied a certain degree of control over the subsidiary's local policies and management, we believe that such control should be an explicitly stated condition for consolidation. Except for one element of the rebuttable presumptions of control described in paragraph 18 (refer to our response to Issue 2, below), we believe that the revised definition and characteristics of control and descriptive guidance provide adequate clarification for when one entity controls another. Additionally, the illustrative examples provided in Appendix A (excluding Examples 1 and 2, as discussed below) offer informative guidance which should further lead to common understandings and application of this standard.

In response to Issue 2, we do not believe that there is a rebuttable presumption of control in situations where an entity has a large minority voting interest in the election of a corporation's governing body [paragraph 18(b)]. Past voting patterns may not represent viable evidence by which to predict future voting patterns or to judge a significant minority shareholder's present ability to control another entity, especially in situations where a significant number of new shares are issued to unrelated parties. For example, in the situation described in Example 1 (paragraphs

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87-94), once Company A's (parent) voting interest in Company B (subsidiary) drops to 45%, Company A's ability to control Company B should not be presumed because historical voting patterns indicate only 75% - 80% of shareholders typically cast votes in the past. If Company A attempted to exercise its "presumed control" over Company B by implementing policies or making operating decisions which may adversely affect Company B's share value in the short term, Company B's shareholder participation in the next election of directors may exceed the historical pattern and generate enough votes to block Company A's nominees and its intended actions. This situation should be differentiated from that described in paragraph 45 where shareholders may possess defined protective rights to block specific actions, such as changes in the articles of incorporation or significant mergers. Notwithstanding Company A's continued positive relationship with Company B's directors, the current ability of Company B's remaining shareholders to unite in an effort to block controversial policy or operating decisions proposed by Company A provides too great an uncertainty for us to conclude that Company A retained control. Therefore, a large minority voting interest should not lead to a presumption of the current ability to control, but rather should continue to be an indicator of significant influence over policy and operating decisions. Additionally, elimination of this situation from the items which represent rebuttable presumptions of control (with appropriate revisions to Examples 1 and 2 in Appendix A) would also have the beneficial effect of removing some of the subjective judgments required to implement this standard and would lead to more uniform application of it.

We also have concerns with the following statement in paragraph 31 which discusses the importance of having decision-making ability in the context of defining control:

"...whether an entity presently has the required decision-making ability does not depend on whether and how an entity with the required decision-making ability (parent) chooses to use that ability or whether a parent's managers intend to perpetuate, sell, or transfer that decision making ability.

While we agree that control should not be defined based upon a parent's intent to exercise its decision-making ability, the parent's intent to sell or transfer this ability is an important consideration, as noted in the discussion of temporary control in paragraph 24. This statement in paragraph 31 would seem to conflict with the temporary control guidance of paragraph 24 and could lead to confusion in assessing control. Therefore, we suggest that the reference to perpetuating, selling or transferring decision making ability be deleted from paragraph 31.

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

Sincerely,

Richard C. Henriquez/RC

cc: J.C. Lewent