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Chief Accounting Officer

June 1, 1999

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

Letter of Comment No: 9/ File Reference: 1082-194R Date Received: ///65

Dear Mr. Lucas:

Re: Exposure Draft (Revised): Consolidated Financial Statements: Purpose and Policy

General Motors is pleased to respond to the Exposure Draft (Revised): Consolidated Financial Statements: Purpose and Policy issued by the Board on February 23, 1999. We commend the Board for taking on the significant issues related to consolidation. We agree with the Board's decision to make revisions to the definition of control of an entity and to expand the implementation guidance from the October 16, 1995 proposed standard. We do however, take exception to some issues raised in the proposed standard. Our responses to the issues we identified in the Exposure Draft are as follows:

Issue 1:

Does the revised definition, together with the discussion of the characteristics of control and descriptive guidance, help clarify when one entity controls another entity? Will the revised definition and guidance lead to common understandings and application of this Statement's definition of control?

GM does not believe that the revised definition, together with the discussion of the characteristics of control and the descriptive guidance will clarify when one entity controls another entity. In addition, the revised definition and guidance for control will not lead to common understandings and application of this Statement's definition of control. This is because the guidance could imply control when it doesn't really exist, and because some parts of the guidance are contradictory to one another. We will explain this further within our response to Issue 2.

Issue 2:

This proposed Statement would provide guidance for applying its definition of control. That guidance includes certain situations, which are identified in paragraphs 18-21 of this proposed Statement that would lead to rebuttable presumptions of control. They are those circumstances in which an entity:

- a. Has majority voting interest in the election of the corporations' governing body or a right to appoint a majority of the members of fits governing body.
- b. Has a large minority voting interest in the election of a corporation's governing body and no other party or organized group parties has a significant voting interest
- c. Has a unilateral ability to (1) obtain a majority voting interest in the election of a corporation's governing body or (2) obtain a right to appoint a majority of the corporation's governing body through the present ownership of convertible securities or other rights that are currently exercisable at the option of the holder and the expected benefits from converting those securities or exercising that right exceeds its expected cost
- d. Is the only general partner in a limited partnership and no other partner or organized group of partners has the current ability to dissolve the limited partnership or otherwise remove the general partner.

Will guidance in the form of rebuttable presumptions of control be necessary? Do the circumstances described in each of the situations above provide a reasonable basis for presuming the one entity in the absence of evidence that demonstrates or proves otherwise? Are they sufficiently clear and operational? Are additional presumptions of control necessary for specific circumstances? If so, please identify those circumstances.

We believe that guidance in the form of rebuttable presumptions of control is necessary since we are moving from a bright line approach of determining control to a more subjective approach. We agree with all of the situations described above with the exception of circumstance 18b. It is circumstance 18b that will cause confusion and misunderstandings relating to the definition of control, because 18b will imply control when it doesn't really exist and is contradictory to the definition of control in this Exposure Draft. A large minority interest is explained in circumstance 18b as being "large when it exceeds 50 percent of the votes typically cast in the corporation's election of directors. For example, if typically only 60 percent of the eligible votes are cast in elections of directors, a minority holding of 35 percent would be deemed large; however that holding would not be deemed large if typically 80 percent of the eligible votes are cast." The main problem with this presumption is that it implicates an entity as the controlling entity by default, not by an entity's own actions to become the controlling entity. Furthermore, an entity can lose its control by doing nothing, since the number of votes cast by other parties is completely out of the entities' control. We believe that an entity is not in control unless, absent regulatory or bankruptcy issues, it is a party to losing that control. If an entity does not have to take actions or be in agreement to losing its control, it was never in control in the first place.

A second problem with circumstance 18b is that it contradicts the consolidation policy by requiring consolidation when the control is considered temporary. The consolidation policy states that "a parent shall consolidate each entity that it controls unless control is temporary at the date it is a acquired or otherwise obtained." Paragraph 24 further indicates that "control of a newly acquired subsidiary shall be considered temporary if at the date of acquisition the parent either has committed to a plan to relinquish control of

that subsidiary or is obligated to do so and it is likely that the loss of control will occur within one year. An exception to that one-year rule is that control also shall be considered temporary if at the date of acquisition circumstances beyond management's control are likely to require more time to complete the ultimate disposition." We believe that circumstance 18b is considered temporary control because it can change from year to year without the presumed controlling entity being party to it. We believe that the definition of temporary control was included in the SFAS No. 94 and the current Exposure Draft policy because it is misleading to consolidate and deconsolidate an entity in a short period of time. As such, this type of temporary control described in 18b should not be a presumption for consolidation.

In summary, if we are moving away from the consistently followed and commonly understood 50% guideline for control for purposes of consolidation, we support the Board's policy and explanations of rebuttable presumptions of control with the exception of presumption 18b. We strongly recommend that circumstance be removed from the rebuttable presumptions of control for purposes of consolidation. It presumes control when there is none and is contradictory to the policy on temporary control.

Issue 3:

Are the benefits of complete and comparative financial statements for all interim periods in the initial year of application sufficient to justify requiring, rather than permitting, that the provisions of this Statement be applied for the first and each subsequent interim period in the year of adoption? Are there specific circumstances surrounding the application of this proposed Statement that would justify delaying its application to interim periods in the year of adoption?

GM believes that there are specific circumstances surrounding the application of the proposed standard that would justify delaying its application. We feel it would be close to impossible to consolidate certain foreign entities beginning January 1, 2000. There are many differences in accounting, as well as significant cultural issues (particularly in the Asian-Pacific region) which would need to be overcome to achieve accurate financial reporting of newly consolidated foreign entities. Furthermore, companies are faced with the additional challenges of preparing for Year 2000-system readiness. As such, we believe that implementation of this standard should be delayed at least one year, to become effective for annual periods beginning after December 15, 2000.

We would be pleased to discuss our comments further with representatives of the Board. If you have any questions, please do not hesitate to contact me at (313) 667-3485.

Sincerely,

Peter R. Bible

Chief Accounting Officer

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