January 16, 1996

Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference No. 154-D
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft of a Proposed Statement of Financial Accounting Standards
dated October 16, 1995, titled “Consolidated Financial Statements: Policy and
Procedures”

Dear Sir:

The New York State Society of Certified Public Accountants is pleased to submit
its comments on the subject Exposure Draft. The comments were developed by the
Society’s Financial Accounting Standards Committee.

The Committee recognizes that the definition of “control” expressed in the
proposed Statement is key to the development of a standard delineating when entities
should be included in consolidated financial statements. While the Committee generally
endorses the substance of the definition and principles expressed in the proposed
Statement, they have concerns on several issues specifically related to the definition of
“control” and, therefore, respectfully suggest the need for modification or clarification on
those issues as discussed in the following paragraphs.

• Paragraph 10 is viewed as an acceptable explicit and operational guide to
evaluating whether “control” exists in the broadest sense. It is when the Draft discusses
“Assessing the Existence of Control” in narrower situations in paragraph 14 that
questions of application arise which, in the view of the Committee, may result in
inappropriate application. For example, in paragraph 14b, reference is made that ability
to dominate the process of nominating candidates and “to cast a majority of the votes
cast” presumes “effective control”. Mere “domination” or a “majority of voting rights
cast” does not always justify control — it should be considered as evidence, but not
necessarily as being determinative.

Without further guidance, it might be used to inappropriately justify consolidation
under temporary circumstances, when from period to period the dominating party or the
size of the “majority” could easily change, thereby resulting in annually changing between
consolidated and unconsolidated. Admittedly, the guidance directs that control should
be presumed under the circumstances “absent evidence to the contrary,” but clarification
would be helpful to identify when such presumption should or could be negated.

- Paragraph 6 excludes consolidation of an employer's employee benefit plan. The Committee urges consideration of whether, in the case of a union sponsored benefit plan, the fiduciary responsibilities discussed in paragraph 150 apply. In other words, would the fiduciary responsibilities be sufficient to preclude consolidation in the financial statements of the union even though the future cash flows of the plan may be, in substance, intermingled with those of the union and other union sponsored plans through the collective bargaining process. In collective bargaining, the contribution rates for the various plans would be negotiated simultaneously with other issues.

- The Committee sympathizes with the alternative view expressed in paragraphs 139 to 144, but realizes that establishing a threshold for consolidation (as discussed in paragraph 143) is conceptually difficult. Nevertheless, there is a need to focus on this complex issue, because it can create burdensome requirements. The focus of the threshold could be on the materiality of the beneficial interest to the reporting entity rather than arbitrarily on the percentage of beneficial interest in the affiliated entity.

- The Committee believes that there is a need to clarify the effect of the statement on the oil and gas industry's standard of proportionate consolidation.

- The Committee strongly recommends that the FASB vigorously pursue "considerably more research, education, and deliberation" concerning requirements for combined financial statements as called for in paragraph 134. The Committee particularly recommends that there be a requirement (except for special purpose presentations) to combine captive affiliates whose product or service is principally sold to the reporting entity.

- The Committee urges that, in discussing "Temporary Control" in paragraphs 16 and 17 of the Draft, the Board consider conforming the paragraph 16 requirements for "management has decided to dispose..." to those contained in paragraph 14 of APB Opinion No. 30 concerning disposal of a segment of a business.

If you have any questions regarding these comments, please let us know and we will arrange for someone from the Committee to contact you.

Very truly yours,

William M. Stocker, III, CPA
Chairman, Financial Accounting Standards Committee

Walter M. Primoff, CPA
Director, Professional Programs

cc: Accounting & Auditing Committee Chairs