ComericA

Comerica Incorporated

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Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P.O. Box 5116
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Dear Sir:

Comerica Incorporated, a $35 billion regional bank holding company, appreciates the opportunity to comment on the Exposure Draft on Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Policy and Procedures."

Although we agree with the Board's conclusion that a business enterprise should consolidate only those entities it controls in accordance with the proposed definition, we do not feel that either ownership or control alone should be the basis for consolidation. We strongly oppose requiring business enterprises to rely solely on subjective evaluations of individual facts and circumstances to determine whether control is present.

In our opinion, control and the level of the parent company's ownership interest in another entity should be the basis for consolidation. This premise takes into consideration the Board's conclusion in ARB 51 that consolidated financial statements for a business enterprise are intended to serve primarily the needs of the shareholders of the parent company. Business enterprises rarely acquire a material interest in another entity without intent to use or direct the use of the acquired subsidiary's assets in essentially the same ways it uses its own assets. Therefore, an entity with more than a 50 percent ownership interest in another entity should be presumed to have effective control. In such instances, we believe consolidation should be required unless the controlling entity can clearly demonstrate that none of the elements of presumptive effective control specified in paragraph 14 of the Exposure Draft are present. Consolidation of an entity in which a business enterprise has a 50 percent or less ownership interest should be required only if two or more elements of presumptive effective control exist. In our view, application of specific guidance for determining presumptive effective control to entities in which a business enterprise has less than majority ownership should be sufficient to ensure that controlled entities which have been excluded from consolidated financial statements in the past will be included in the future.

We agree that the concept of proportionate consolidation for subsidiaries is not a valid or desirable alternative to full consolidation. If a parent company has control of an entity's individual assets and liabilities, then all of those assets and liabilities should be included in the consolidated financial statements.

With regard to step acquisitions, we strongly believe that the purchase price or cost of the acquisition should consist of the cost basis of earlier investments plus the amount paid for the investment that results in control, regardless of whether the earlier investments are marketable or nonmarketable securities. We feel the Board's decision to require recognition of unrealized gains or losses on marketable securities in earnings as a result of a purchase acquisition is inappropriate. A step acquisition does not result in a disposition of an asset which requires recognition of a gain or loss. Rather the parent company retains the shares associated with the previously purchased investment

asset and purchases additional shares of the entity to effect the acquisition. Therefore, the cost basis of previously held investment securities, whether marketable or nonmarketable, should be considered part of the aggregate cost of the acquisition.

We do not agree with the Board's decision to require the controlling interest to absorb losses in excess of the noncontrolling interest's equity in a subsidiary. We believe that, for business enterprises, the Board should be consistent and allocate 100 percent of the losses of a subsidiary to the controlling and noncontrolling interests on the basis of their proportionate interests in the subsidiary's net income or loss. We understand that shareholders of the noncontrolling interest cannot be held liable for losses beyond their equity interest in the subsidiary corporation, but neither can the shareholders of the controlling interest. In the case of bankruptcy, neither interest would be legally responsible for the resulting liability. The Board is incorrectly attempting to equate the shareholders of the controlling interest to general partners in a partnership and the shareholders of the noncontrolling interest to limited partners. Also, given the proposal to record the noncontrolling interest's portion of the equity in the subsidiary as equity of the consolidated entity, we feel that forcing the shareholders of the parent company to absorb losses attributable to the noncontrolling interest is not equitable and appears to be without legal basis.

Furthermore, we oppose reporting the noncontrolling interest in subsidiaries as a separate component of consolidated equity. Shareholders of a noncontrolling interest do not represent nor contribute to a parent company's consolidated equity. A more acceptable classification would be to display this interest between liabilities and equity as currently practiced. At a minimum, we strongly suggest that the Board specifically require segregation of the noncontrolling interest in subsidiaries from common shareholders' equity in a manner similar to preferred stock. We feel this would provide a more adequate distinction between the components of equity attributable to the controlling interest and noncontrolling interest, as well as prevent distortion of the financial statements and related financial ratios.

Cordially,

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