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Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Federal Accounting Standards Board  
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**File Reference No. 154-D**

Dear Mr. Lucas:

We have reviewed the Board's Exposure Draft (ED) on "**Consolidated Financial Statements: Policy and Procedures**" and appreciate the opportunity to submit comments for the Board's consideration.

**Control Criteria**

Throughout this ED the Board places considerable emphasis on improving financial reporting of information provided to users, issuers and auditors. In the majority of the Board's view, improving financial reporting can be achieved by basing consolidation on control--whether legal or effective control. In paragraph 139, the dissenting Board member observed that control, without a significant ownership interest, is insufficient for one business entity to consolidate another. We hold to this same opinion that consolidation based on just the existence of effective control does not provide relevant information to the user, investor or issuer of the financial statements. We agree that both control and a significant level of ownership should be required for consolidation, as stated in paragraph 74. It appears that the ED could require consolidation of ownership interests that are currently accounted for under the cost method of accounting (0-19%) simply because other investor interests are "widely held." Reflecting an 81% minority interest holding as a separate component of equity does not appear to accomplish the desired result. SFAS No. 94 already requires consolidation of majority-owned entities, and we believe the proposed Statement should only add the aspect of effective control to the legal control criteria which already exists. We do not see how consolidating entities merely on control, without consideration of ownership aspects, enhances or improves the financial reporting process.

In paragraph 14(a), the Board has suggested that ownership of a large minority voting interest of approximately 40 percent is a presumption of effective control and, this alone, should lead to full consolidation of the entity. We question the need to change from existing GAAP to adhere to a lower consolidation threshold. In paragraph 51, the Board acknowledges that this Statement is not expected to add significantly to the number of entities to be consolidated, or in other words, not much will change from present GAAP. We do not believe it is beneficial for the Board to specify a new percentage as guidance since the most likely outcome would be to move the bright line application to a lower percentage of ownership interest. SFAS No. 94 made a tremendous step forward in the area of consolidation practices by requiring a majority ownership criteria to be followed in consolidation, including nonhomogeneous entities. To consciously move away from the majority ownership aspect is troubling.

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**Comparability and Consistency of Financial Information**

We have concerns that comparability will be lost because of any requirement to consolidate due to effective control issues that must be subjectively applied. Under existing GAAP, publicly owned entities are adhering to the same consolidation rules--whether it be a 20% interest, 50% interest or a higher percentage. In addition, an entity that is consolidated at one year-end may not be consolidated the subsequent year-end due to control transferring to other investors who become more active in the voting or board representation process. This perceived loss of comparability and loss of consistent application from year to year does not add to the usefulness of the information provided in consolidated statements, but could confuse the readers and investors and add administrative burden on the issuer.

**Special Purpose Entities**

In reference to paragraphs 195-202 of Appendix B, the ED illustrates the use of a special purpose entity for leasing purposes. We assume the illustration is not amending EITF 90-15 guidance with respect to such entities. In practice, usually the lender/lessor has a three percent equity investment which, in accordance with EITF 90-15, is considered to be an adequate equity investment. At present, the use of these financing arrangements is considered to be off-balance-sheet financing.

**Summary**

In summary, we do not believe that the proposed ED will enhance existing accounting literature to overcome the Board's concerns about comparability, consistency and relevant financial statement information. On the contrary, if the ED is adopted in its present form, there may well be less comparability and more inconsistency than exists in practice today. Therefore, we believe existing rules are adequate.

Sincerely,

  
Vice President & Comptroller

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