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Financial Accounting Standards Board  
File Reference 154-D  
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Dear Sirs,

Motorola, Inc. welcomes the opportunity to express its views on the recently issued Exposure Draft "Consolidated Financial Statements: Policy and Procedures".

As a leading provider of wireless communications, semiconductors, and advanced electronic systems and services, Motorola is an investor in a large number of fully and partially-owned subsidiaries throughout the world. As a result, the accounting rules and issues surrounding consolidation and equity accounting are prominent factors in the company's day-to-day business decision-making.

At Motorola, a large and increasing portion of the Company's net sales, operating profits and growth have come from its international operations. More of the Company's assets, customers, and suppliers are located outside of the United States. As a result, the Company has a solid global perspective on all of its businesses. In our view, the current Exposure Draft on consolidation, with its emphasis on "control over assets", has been written for a primarily domestic business environment in which control, as described in the Exposure Draft, is much more easily obtained. Motorola also observes that the concept of "significant influence" which is already present in the accounting literature, is very similar to what is described in the Exposure Draft.

### **Control**

In Motorola's view, the most difficult issue is that of when control of an entity has been established. The Company feels that, in a given business situation, there can often be restrictions imposed by others on Motorola's actions which can overwhelm its ability to control an entity's assets.

The most important source of these restrictions is embodied in the rights of non-controlling shareholders to veto specific actions by the entity in question. Super-majority or minority rights provisions within shareholder agreements can become a tool of opposition to decisions made by an investment participant who would otherwise be "in control" by the Exposure Draft's standard. It is essential that the final statement address this issue and provide sufficient guidance on the factors to be used in deciding when the rights of non-controlling shareholders are substantial enough to weigh in for or against control.

Especially in international business, Motorola has experienced many situations in which it would be able to fulfill any or all of the six requirements outlined in the Exposure Draft under "Assessing the Existence of Control", but would still be able to argue that true control over the assets was not present. In these cases, the assets under consideration were also owned in part by a foreign government, or the political situation of a given nation was not conducive to the comfortable assurance that assets could be recovered if needed, much less "controlled". Motorola argues that the Exposure Draft needs to recognize that in situations where the political risks are judged to be high, or where the restrictions and requirements of foreign governments are burdensome, and control cannot be assured under these circumstances, the entity should not be consolidated.

While Motorola has been comfortable with the current accounting rules which require a substantial equity interest (more than 50%) in an entity before consolidation is required, we agree that there can be situations in which the company has control (effective or legal) without having an equity interest over 50%. We definitely think that there are situations in which a parent can have ownership over 50%, but not have control. We would prefer not to rely on mere percentage of ownership rules to determine when a consolidation is needed. Motorola is of the opinion that given real and effective control, no matter what the ownership level, consolidation is the right thing to do.

On the issue of temporary control, Motorola does not agree with restricting judgment to only newly-acquired subsidiaries. Given that the assessment of control as described in the Exposure Draft is subjective, it does not make sense to add to the subjectiveness by placing limits on when it is temporary. Motorola feels that the process of deciding when control is present should be considered and re-considered throughout the subsidiary's relationship with the parent, and if control is temporary, the entity should be excluded from consolidation. The process of re-assessing a given accounting treatment is recommended or required in many Financial Accounting Standards. Given the importance of this decision, it makes sense to allow it in this standard. Obviously, this decision should not be made without considering the effect on comparability and relevance to the Company's previously issued and future financial statements.

For all of these reasons, we feel that the Exposure Draft does not clarify guidance on control, but only adds to the subjectiveness of the decision.

## **Consolidation Procedures**

### **Separate Disclosure of Controlling and Non-Controlling Interests**

Motorola questions the value of providing a separate line on the balance sheet for non-controlling shareholders in equity. The suggested name change may be more descriptive, but moving what was Minority Interest, classified as a liability, to the equity section does not improve reporting. The question of whether these balances should be included or excluded in the computation of financial ratios will cause comparability problems between companies. The equity section of any balance sheet should be reserved to the capital transactions of the Company itself. We feel that including anything else would only be confusing to readers.

Motorola also questions the value of providing a break-out of income attributable to controlling and non-controlling shareholders on the income statement. If disclosure of this amount was important to investors, we would already be disclosing it in the income statement. There is nothing in the Exposure Draft that has fundamentally changed the importance of this component of consolidated net income.

### **Acquisition of Subsidiaries**

We cannot imagine what advantage a reader of financial statements can gain from simply changing the formula of allocating fair value between goodwill, the controlling and the non-controlling interest. The balance sheet in question will still present fair value if currently practiced accounting rules are followed. None of the recalculations would be relevant enough to change a reader's mind about the company's financial position.

The requirement to treat the purchase of additional shares of a controlled entity as a treasury stock transaction would affect the equity section of the parent company's financial statements. We repeat that this section of the balance sheet should be reserved only for the capital transactions of the parent company. Readers of financial statements will find anything else very difficult to understand. In addition, in a step transaction situation, goodwill on the succeeding steps would be buried in the equity section of the balance sheet. It would seem that information on the amount of goodwill paid at separate times for essentially the same investment would be important information to a financial statement readers. This would work to the advantage of companies that did not want this information exposed, or that have an aversion to the "earnings drag" of amortizing goodwill.

### **Disposition of a Subsidiary**

The suggested practice of accounting for subsequent purchases of goodwill in the equity section in a multiple-step entity purchase sets the stage for a very counter-intuitive result when the entity is disposed of. The Exposure Draft basically seems to propose that the part of the transaction included in equity (which normally would have been called goodwill) stays there forever, and does not become part of the computation of gain or loss on the entity's disposition. We feel that this would be incorrect and misleading to a reader of financial statements.

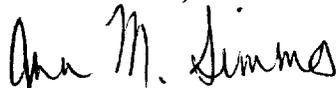
### **Conforming Accounting Policies and Fiscal Periods**

While we would like to imagine a world in which all accounting policies and fiscal periods were conforming with the parent's, we are not certain that it is possible, and wonder if it is desirable. Accounting policies at the industry level should be applied with judgment and knowledge as it relates to that industry. While many parent-subsidiary relationships are conveniently within the same industry, this does not always happen. To suggest that we re-account for an entity that is using accounting standards and principles correctly, just so that it agrees with a the parent, which may not have the same underlying reasons for applying its accounting standards and policies, seems to go against the valid reasons for setting up the standards to begin with.

### **Conclusion**

We conclude that, for our purposes, this Exposure Draft does not break new ground in the area of financial reporting for partially owned subsidiaries. We will continue to use the good business judgment in applying these rules that we always have. Further, we are not pleased over the prospect of having to practice the consolidation procedures suggested by the Exposure Draft, and feel that they would seriously mislead and confuse financial statement readers.

Sincerely,  
**MOTOROLA, INC.**



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