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Letter of Comment No: /20 File Reference: 1082-154

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January 15, 1996

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

Dear Mr. Lucas:

We generally object to the proposed statement, "Consolidated Financial Statements: Policy and Procedures." It is our position that the present accounting rules provide better, more objective guidance than the proposed statement and are fully understood by our shareholders, creditors, and other users of our financial statements. We do not believe that the new consolidation policy as drafted will result in an improvement in the financial reporting system. We acknowledge that companies must make judgement calls as to when to consolidate, and there may be areas for improvement in consolidation policies. However, we do not believe that the Exposure Draft (ED) appropriately addresses these areas. Specific concerns are detailed below:

Control

We object to the definition of control. The ED defines control of an entity as "power over its assets -- power to use or direct the use of the individual assets of another entity in essentially the same ways as the controlling entity can use its assets." This definition can lead to consolidation of entities when the controlling entity has little right to any economic benefit. This could result in a 99% or even 100% minority interest. Consolidating assets and liabilities from which an entity will realize little economic benefit seems misleading. This is clearly evident in the requirement in the ED to consolidate a sole general partnership interest in a limited partnership. Most such interests are for a nominal amount. To consolidate 100% of the assets and liabilities, and show say a 99% minority interest, seems confusing and misleading.

We also object to the provision that "ownership of a large minority voting interest (approximately 40 percent) and no other party or organized group of parties has a significant interest" will require consolidation. By definition, a minority voting interest cannot control an entity. Other shareholders may join a large minority shareholder to approve a position. In other situations, they may join together to vote down a position advocated by the large minority shareholder. This will vary by vote and issue. Therefore, how can the large minority interest be deemed to be in control?

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SAB 51 Gains

We view the ownership of a subsidiary as the ownership of an asset. We believe that if an entity owns 100% of an entity and sells 49% of the entity, it has sold an asset; and gain or loss should be recognized. To not give gain or loss recognition to such a transaction ignores the economics of the transaction.

The ED makes no distinction between direct sales of a parent's shares in its subsidiary and issuances of additional shares by the subsidiary. If the Board ultimately concludes that direct sales should be recognized as gains or losses, we believe that no distinction should be made between direct sales and issuances of shares by the subsidiary since the net effect to the parent company is the same.

We believe that the accounting treatment and guidance in SABs 51 and 84 are adequate to prevent abuses in this area, have worked well over time, and should be continued.

Restatement

We strongly disagree with the ED requirement that prior periods be restated upon adoption of the statement. This standard may have a significant impact on the financial statements of many companies. In a number of cases, this will impact reported net income. To require restatement of net income will result in a perception by the users of financial statements that previously reported results were wrong or inaccurate. To penalize companies who were following the rules in place when the transactions occurred, thus undermining their credibility with the investing public, seems unreasonable.

Paragraph 137 of the ED provides an exception if restatement is not practicable. The paragraph as written seems unnecessarily ambiguous regarding SAB 51 gains. The board acknowledges that most entities will have the necessary information to restate their prior consolidated financial statements. Given the current disclosure requirements of SAB 51, this information should be readily available in most cases with little direct cost of restatement. In that context, restatement should be practicable.

The indirect costs and confusion to the investing public engendered by restating already reported net income and earnings per share are larger than the direct costs but are also more difficult to quantify. These indirect costs may render restatement impractical. The benefits of the information gained from reversing the SAB 51 gain seem small in comparison to this potential confusion and uncertainty. Any material impact on net income and earnings per share should already have been disclosed at the time the gain was recorded, thus allowing the financial statement user to factor in the impact of this accounting treatment in a timely manner. Retroactive restatement, several years after the fact, seems to have little benefit nor to provide any relevant new information.

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We would be happy to discuss these matters further with you.

Respectfully,

Ted Crumley Senior Vice President and Chief Financial Officer