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January 16, 1996

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
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Letter of Comment No: 119
File Reference: 1082-154
Date Received: 1/19/96

Gentlemen:

Exposure Draft
Consolidated Financial Statements: Policy and Procedures

We would like to respond to exposure draft number 154-D issued on October 16, 1995 of a proposed Statement of Financial Accounting Standards (SFAS) "Consolidated Financial Statements: Policy and Procedures".

At the outset we would like to mention that we are a publicly-traded company with revenues of approximately \$2.8 billion. Hercules manufactures chemical specialty products for a variety of markets worldwide. Its businesses include Paper Technology, Resins, Fibers, Food Gums and Aqualon water-soluble polymers. With shareholder value as its guiding focus, the corporation concentrates on value-added, high-performance products where it has a market or technology advantage. Hercules employs 8,000 people and operates 45 manufacturing plants around the world.

Hercules **does not** support the proposed Statement which sets forth the conditions under which entities should be consolidated and how consolidated financial statements should be prepared. This position is based upon the belief that control **and** a significant level of ownership (50% or more) should be necessary conditions for requiring consolidation of a parent-subsidary relationship; not control alone. By consolidating all entities which meet the criteria of this proposed Statement, the legal form of the subsidiary is totally ignored. Furthermore our position is based upon the belief that inclusion in the consolidated financial statements of the results of operations and financial position, of interests that do not relate to stockholders will mislead the reader.

We believe that this proposed Statement prescribes the inclusion of irrelevant information into the consolidated financial statements, specifically, the non-controlling interests in the consolidated subsidiaries. Hercules believes that the purpose of consolidated financial statements is to present, primarily for the benefit of shareholders and creditors of the parent company, the results of operations and financial position that relate to the interest of the parent's stockholders only (i.e. the parent company concept). Inclusion of results of operations and financial position of interests that do not relate to the interest of the stockholders will impinge upon the relevance and reliability of the consolidated financial statements.

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Hercules makes the following additional comments regarding this proposed Statement:

Definition of Control: The definition of control as expressed in this proposed Statement is **not** practical. We appreciate the extensive guidance given within the Exposure Draft regarding the explanation of where control is indicative or presumed to exist; nevertheless, the Company feels that the control definition would entail excessive monitoring. Companies such as Hercules which have a large number of subsidiaries would be required to expend a significant effort each reporting period conducting a comprehensive evaluation of each investment and relationships with other entities to assess whether consolidation would be required.

Step Acquisition of a Subsidiary: The Exposure Draft's proposed accounting for a step acquisition that results in control is complex and a change from current practice. Currently, retroactive application of the equity method for those pre-control investments that were not previously accounted for under the equity method is required. Under the Exposure Draft, the accounting for pre-control investment drives the subsequent acquisition cost once control is attained. Resultingly, the timing and amounts of investment acquisitions can impact the ultimate acquisition cost. The effect of using the carrying amount of pre-control investments in determining acquisition cost could potentially yield different amounts of recorded goodwill (or negative goodwill) under the proposal. The fact that two transactions resulting in the same "control" situation would be accounted for differently is opposed by the Company on the basis of consistency.

Contemplated Changes in Control: The Exposure Draft's accounting for changes in control can be manipulated under the proposed guidance if a parent company is contemplating the divestiture of a controlled entity. Under the Exposure Draft as it is currently written, gain or loss recognition can be managed, depending on the manner in which the transaction is executed. If the parent executes a complete divestiture in a single transaction, it would result in gain or loss recognition of the disposition in the income statement. Alternatively, if the parent executes the transaction in strategic steps, the parent can sell a significant portion of its interest while still meeting the definition of control and no gain or loss would be recognized. This transaction would be recorded in equity. The gain or loss on the remaining sale (when control no longer exists) would then be accounted for in the income statement. Hercules opposes this loophole allowing companies to manage earnings.

Finally, Hercules feels that the following additional items should be considered by the Board with respect to this Exposure Draft:

a) Guidance Regarding the Preparation of a Statement of Cash Flows: Currently, there is no guidance on this important subject and this could lead to undesirable diversity in practice.

b) Guidance Regarding Joint Venture Accounting (i.e. situations where two 50% partners have equal control): Hercules believes that current accounting for joint ventures, i.e. the equity method, has gained widespread acceptance and should not be affected by any changes in consolidation accounting. Accordingly, joint ventures should be specifically excluded from the scope of the proposed standard.

Very truly yours,



George Mackenzie
Vice President and
Chief Financial Officer

cc: Vikram Jog