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January 16, 1996



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

Letter of Comment No: 105
File Reference: 1082-154
Date Received: 11

Re: Exposure Draft of a Proposed Statement of Financial Accounting Standards dated October 16, 1995, titled "Consolidated Financial Statements: Policy and Procedures"

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Dear Sir:

The New York State Society of Certified Public Accountants is pleased to submit its comments on the subject Exposure Draft. The comments were developed by the Society's Financial Accounting Standards Committee.

The Committee recognizes that the definition of "control" expressed in the proposed Statement is key to the development of a standard delineating when entities should be included in consolidated financial statements. While the Committee generally endorses the substance of the definition and principles expressed in the proposed Statement, they have concerns on several issues specifically related to the definition of "control" and, therefore, respectfully suggest the need for modification or clarification on those issues as discussed in the following paragraphs.

• Paragraph 10 is viewed as an acceptable explicit and operational guide to evaluating whether "control" exists in the *broadest* sense. It is when the Draft discusses "Assessing the Existence of Control" in *narrower* situations in paragraph 14 that questions of application arise which, in the view of the Committee, may result in inappropriate application. For example, in paragraph 14b, reference is made that ability "to dominate the process of nominating candidates" and "to cast a majority of the votes cast" presumes "effective control". Mere "domination" or a "majority of voting rights cast" does not always justify control - it should be considered as evidence, but not necessarily as being determinative.

Without further guidance, it might be used to inappropriately justify consolidation under temporary circumstances, when from period to period the dominating party or the size of the "majority" could easily change, thereby resulting in annually changing between consolidated and unconsolidated. Admittedly, the guidance directs that control should be presumed under the circumstances "absent evidence to the contrary," but clarification

would be helpful to identify when such presumption should or could be negated.

- Paragraph 6 excludes consolidation of an employer's employee benefit plan. The Committee urges consideration of whether, in the case of a union sponsored benefit plan, the fiduciary responsibilities discussed in paragraph 150 apply. In other words, would the fiduciary responsibilities be sufficient to preclude consolidation in the financial statements of the union even though the future cash flows of the plan may be, in substance, intermingled with those of the union and other union sponsored plans through the collective bargaining process. In collective bargaining, the contribution rates for the various plans would be negotiated simultaneously with other issues.
- The Committee sympathizes with the alternative view expressed in paragraphs 139 to 144, but realizes that establishing a threshold for consolidation (as discussed in paragraph 143) is conceptually difficult. Nevertheless, there is a need to focus on this complex issue, because it can create burdensome requirements. The focus of the threshold could be on the materiality of the beneficial interest to the reporting entity rather than arbitrarily on the percentage of beneficial interest in the affiliated entity.
- The Committee believes that there is a need to clarify the effect of the statement on the oil and gas industry's standard of proportionate consolidation.
- The Committee strongly recommends that the FASB vigorously pursue "considerably more research, education, and deliberation" concerning requirements for combined financial statements as called for in paragraph 134. The Committee particularly recommends that there be a requirement (except for special purpose presentations) to combine captive affiliates whose product or service is principally sold to the reporting entity.
- The Committee urges that, in discussing "Temporary Control" in paragraphs 16 and 17 of the Draft, the Board consider conforming the paragraph 16 requirements for "management has decided to dispose..." to those contained in paragraph 14 of APB Opinion No. 30 concerning disposal of a segment of a business.

If you have any questions regarding these comments, please let us know and we will arrange for someone from the Committee to contact you.

Very truly yours,

cc:

William M. Stocker, III, CPA Chairman, Financial Accounting

Villia M. Stocker III

Standards Committee

Walter M. Frimoff Walter M. Primoff, CPA

Director, Professional Programs