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SOUTHWEST ROYALTIES

Letter of Comment No: 127
File Reference: 1082-154
Date Received: 1/22/96

Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Attention: Director of Research and Technical Activities

Southwest Royalties, Inc. (SWRI) submits the following comments and concerns related to the October 16, 1995 Exposure Draft Proposed Statement of Financial Accounting Standards entitled "Consolidated Financial Statements: Policy and Procedures". SWRI is a privately held oil and gas company which among other activities, acts as the managing general partner for approximately 32 oil and gas limited partnerships, of which approximately 19 are public partnerships.

Our primary concerns under the proposed statement are created by the consolidation requirement in paragraph 14(f). Generally, our partnerships are structured having one (1) managing general partner, which is SWRI, and one (1) general partner, who is the president and majority stockholder of SWRI. Although the limited partners can remove SWRI as managing general partner, various factors make this possibility remote. Based on our interpretation of the exposure draft, it appears SWRI would be required to include the partnerships in the consolidated financial statements. The proposed consolidation of the partnerships into the financial statements of SWRI pose the following concerns and problems:

1.) This will distort our consolidated financial statements based on the fact that for the majority of our partnerships, SWRI owns 10% or less of the partnership. In addition SWRI's percentage ownership in the partnerships entitles SWRI to receive revenues produced from the assets of the partnership rather than the assets of the partnership themselves. Upon the sale of any of the partnerships assets, the limited partners receive 100% of the proceeds. SWRI really has no claim or ownership in any of the partnership assets other than cash and accounts receivable. To include all assets and liabilities of the partnership would be misleading.

2.) The consolidation of the partnerships into SWRI's consolidated financial statements would distort the image of SWRI to its creditors and potential investors, and distort financial ratios and other loan covenant requirements. SWRI creditors would not be able to

determine what portion of the assets and liabilities they have claim to as collateral, without massive disclosures and supplemental information, which could lead to information overload, and render the financial statements useless.

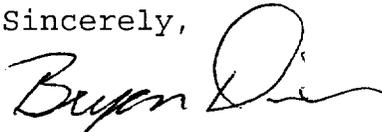
3.) The consolidation of the partnerships into SWRI's consolidated financial statements would add additional reporting and administrative costs and burdens to SWRI, its partnerships, and its subsidiaries, without adding much useful information to help creditors, stockholders, or potential investors evaluate SWRI as a whole.

4.) Appendix B to the exposure draft indicates that a trustee would not be expected to consolidate a trust because of the nature of the relationship. The relationship between many general partners, the general partnership and limited partners is ambiguous to that of a trustee, trust and beneficiaries of that trust. Similar to a trustee, the general partner usually receives a fee for management of the partnership. Although the general partner receives economic benefit from the income derived from the partnership, it can be very small compared to the benefit usually received by the limited partners.

In summary, we agree that control is an important factor to evaluate when determining what entities should be consolidated, but control as defined in the exposure draft should not be the only factor. We believe control, percentage ownership, and the economic benefit that can be derived from individual assets, liabilities, revenue and expenses should also be considered.

If we can be of any help, or you wish to discuss our comments further, please do not hesitate to call me at (800) 433-7945.

Sincerely,



Bryan Diaxon
Financial Reporting Manager