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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

## Dear Sir or Madam:

McDonald's Corporation is pleased to respond to the Exposure Draft for Proposed Statement of Financial Accounting Standards "Consolidated Financial Statements: Policy and Procedures.

We do not believe that this proposed Statement represents an improvement over current practice, and accordingly do not support the proposed Statement. The following discussion highlights our areas of concern:

The current rules for consolidation are very straightforward, resulting in consistent accounting throughout practice. We believe that the new criteria for consolidation, i.e. effective control, is a more nebulous concept and will result in diversity in practice. We believe that a company can have influence over another company without resulting in "control" of that company. In our view, under the proposed Statement, too much will be left to practitioners' judgment resulting in different accounting results among entities.

We strongly disagree with indicator (e) established in paragraph 158 and examples 4 and 5 in paragraphs 190 through 202. Specifically, we believe that an entity's role in the creation of a new entity is not relevant to the level of control in the ongoing operations of the created entity. Examples 4 and 5 include many criteria that sway the level of effective control to a side where one would conclude that effective control exists. In reality, many example 4 and 5 structures will be established with only a portion of the criteria displayed in the current examples. At what point does that influence become effective controland how do we establish criteria which are straightforward enough to result in similar interpretation by all practitioners? Those situations which are not clear cut will more than likely lead to different accounting results as too much judgment will be left to practitioners and auditors.

Similarly, a relationship between multiple entities that requires them to work together to fulfill the business purpose(s) of either or all entities does not necessarily indicate an existence of control by one entity over another. We believe this is another situation where parties may have influence without necessarily having control. For example, there are many vertical relationships (e.g. supplier, manufacturer, distributor) where each is dependent on the other for their business and the parties work together to fulfill a business purpose, without resulting in control. For example, if one company does not ultimately have any ownership interest in the new entity, we do not believe it would be appropriate to consolidate the new entity and then reflect a 100% minority interest.

We do not agree that the purported benefit of "more" financial information is "better" information when the inclusion of the additional financial information is inconsistently applied and may result in the gross-up of financial statements. While we understand the financial statement user's desire to view all assets and liabilities of the company and assess the complete earnings potential, we believe that this need is met through existing requirements, as follows:

- The current consolidation practice requires consolidation of significant ownership interests (>50%) and equity accounting for ownership interest (20% 50%). We believe that this provides a reasonable basis for analysis of the parent's financial condition.
- When a company has significant investments in subsidiaries, they are required to disclose a condensed income statement and balance sheet in the footnotes for those investments. This makes the information available to the financial statement user without grossing up the parent company's own financial statements. If the investments in subsidiaries are not significant (which is defined by the SEC to be 10% of the assets or income of the company), then the inclusion of the information does not appear to be necessary to a fair view of the company's financial condition.

**Other Issues:** While we are not in agreement with the proposed Statement, we would raise the following issues for further clarification if the Board elects to proceed with this project:

Scope: We were unclear as to the scope of this proposed Statement given the exclusion of joint ventures and other unconsolidated entities over which another entity can exercise significant influence. (Paragraph 65, footnote 8). It is unclear what specifically constitutes a joint venture or the other unconsolidated entities -- potentially resulting in even more diversity of practice. There are numerous relationships listed in paragraphs 161-172 which describe relationships between entities that generally do not result in control of an entity. At a minimum, we believe the exemption of joint ventures and other unconsolidated entities should be added as another example similar to those in paragraphs 161-172. Preferably, this exemption should be noted in the scope section within the body of the final Statement.

Effective date: There will inevitably be companies which will now have to consolidate entities which had previously not been required to be consolidated. In these circumstances, various financial ratios will potentially change and result in the need to change debt covenants or other agreements. Accordingly, we believe that implementation of a new Statement should provide a longer lead time to allow companies to evaluate any impact of the proposed Statement and make changes, if needed, to debt or other agreements.

Balance Sheet Presentation: The proposed Statement would require that the noncontrolling interest in subsidiaries be reported as a separate component of equity, because the minority stockholders have an interest in a component of the consolidated enterprise. We believe, however, that the minority interest in the enterprise's assets results in an obligation to the consolidated entity. The minority interest does not represent the parent's residual interest or equity position. Therefore, we agree with the current prevailing practice of displaying the noncontrolling interest in the statement of financial position between liabilities and equity and recommend the balance sheet presentation not be changed.

<u>Income Statement Presentation</u>: We strongly believe it may be more appropriate to require separate disclosure of the income attributable to the noncontrolling interest in subsidiaries as a line item on the face of the income statement above income before provision for income taxes rather than as a separate "net income" subtotal as per the example in paragraph 107. This proposal would meet the Board's purpose of highlighting this activity without confusing the financial statement user by having multiple net income lines.

<u>Preferred Shares</u>: The proposed Statement defines a noncontrolling interest as "the portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and its affiliates." It is not clear whether all items currently classified as minority interests (e.g. redeemable preferred stocks and preferred interests in consolidated subsidiaries held by third parties) should be included with the noncontrolling interest as defined. We believe all items previously classified as minority interest should be applied to the noncontrolling interest classification and that clarification of this point be made in the final Statement.

Conforming Period End: Paragraph 33 requires the conformity of fiscal periods unless it is not practicable, however, paragraph 133 would indicate that improved technology has virtually eliminated the need for an accommodation period for differing fiscal periods. While the "not practicable" criteria continues to allow for differences, we believe that paragraph 133 overstates the ability of all companies to conform their fiscal periods. There will continue to be situations where the conforming of fiscal periods is not practicable due to a number of reasons, for example: not all companies are using the sophisticated new technology; there may be multiple owners, auditors and required financial statements for an entity. In addition, many global companies consistently close their accounting records for certain international locations on a one-month lag in order to release earnings earlier and meet tight reporting deadlines. Accordingly, we believe the three-month accommodation period allowed under ARB 51 should continue to be allowable for all companies.

## Summary:

As we discussed above, we do not believe that this proposed Statement represents an improvement over current practice, and accordingly do not support the proposed Statement. We believe that the existing accounting rules provide a straightforward and consistent framework for accounting for subsidiaries, which we believe adequately meets the user's information requirements. With all of the critical topics on the Board's agenda, we believe that this is a lesser priority and that the Board's time could be better spent on other issues.

McDonald's Corporation appreciates the opportunity to respond to the invitation to comment. We would be happy to discuss our comments in greater detail if requested.

Sincerely,

Michael L. Conley

Senior Vice President, Controller

MLC:emr

cc David Pojman

Keith Kravcik

Chris Pieszko