Letter of Comment No: 87
File Reference: 1082-154
Date Received: 1/12/96



First Tennessee Bank National Association

Box 84 Memphis, TN 38101 (901) 523-4444 Cable FIRBANK

January 12, 1996

Financial Accounting Standards Board File Reference 154-D 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

First Tennessee National Corporation appreciates the opportunity to respond to the exposure draft of Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements: Policy and Procedures. As a public company with the responsibility of providing accurate information concerning the company to its shareholders and investors, the proposed Statement could create a number of issues related to this responsibility.

With respect to whether the definition of control expressed in the proposed Statement is operational, the complexity of the ownership structure would be a determining factor in whether a definite controlling party could be identified. In a two or three party partnership or simple corporate structure, control would be easier to determine. As the number of participants grows in the ownership group it becomes more difficult to determine control. The proposed Statement comments on the omission of relevant information impairing the relevance of the financial statements. This is looking at the issue from only one side. From another view, the inclusion in the consolidated financial statements of assets. liabilities, revenues, expenses, gains, and losses for which the entity does not have a right is just as misleading to the user of the financial statements. If more than one entity were to determine that it was the controlling party to another entity, then this proposed Statement would lead both to include the assets, liabilities, revenues, expenses, gains, and losses of the entity in their consolidated financial statements. This would lead to an overstatement by each of these entities. Since the Board concluded that the consolidated financial statements must report as completely and faithfully as possible the financial position, results of operations and the cashflows of a parent and its subsidiaries essentially as if all of the resources were held and all their activities were conducted as a single entity, it is recommended that the concept of pro rata consolidation be revisited.

Another issue to be considered is a venture capital investment company. Venture capital investment companies often invest in companies in the early stages of business development when risks as well as the opportunities for future returns are the greatest. They try to moderate investment risk by diversifying portfolios based on the number of investments, the variety of securities, and the stage of development and financing of the entities. The business purpose of most venture capital investment companies is to generate high returns on investments in a relatively short period, generally less than five years. Profits earned on investments that have appreciated compensate the venturer for losses on unsuccessful investments. Although the investments of venture capital investment companies are intended to be passive, venture capitalists are often more actively involved with their portfolio companies than typical passive investors. Their involvement may consist of serving on a portfolio company's board of directors, providing formal or informal technical advice, or providing significant managerial assistance in their operations in the short run. The purpose of this involvement is to control the risk of the capitalist's investment. The importance to the investor and shareholder is the venture capital investment company's exposure to loss. To require that a venture capitalist consolidate the assets, liabilities, revenues, expenses, gains, and losses of its investments because of an issue of temporary control would cause the venture capitalist financial statements to provide very little useful information to the shareholder or investor about the company and to be actually misleading because of the overstatement of financial position and results of operations.

The issue of the consolidation of special purpose entities (SPE) creates additional concern. A SPE utilized in the securitization process should not be included in the consolidated financial statements of the seller. The SPE holds title to the assets, issues beneficial interest, and is limited to collecting cash from its assets and distributing the proceeds to beneficial interest holders. The SPE has standing at law distinct from the seller. If the seller can record the transfer as a sale, the seller has surrendered control of the assets to the Trust/SPE. Even if the seller is servicing the loans for the SPE, it is only following the instructions of the Trust and passing through to the Trust the cash collections. The seller is no longer in control of the assets as required by the proposed Statement and, therefore, should not consolidate the SPE in its financial statements. This should be made clear in the scope of the proposed Statement.

Limiting the noncontrolling interest portion of allocated losses to its equity in the subsidiary does not follow the principle of going concern. This approach to the allocation would misstate the controlling interest equity. Also the inclusion of the noncontrolling interest as a component of the parent's equity is misleading; the noncontrolling interest does not have an ownership interest of the parent. It is recommended that the noncontrolling interest be a separate component between liabilities and equity. It is not understood why goodwill is not to be attributed to the noncontrolling interest. This approach changes the investment by the

controlling interest to a higher portion than was actually invested. Why is it assumed that only the controlling interest would invest more than the fair value in an entity?

The accounting model that is in place today related to consolidations has served the shareholder and investor for many years. Changes to this accepted model could result in the misstatement of the financial position, results of operations, cashflows, and shareholders' equity. In general, it is felt that the exposure draft is ambiguous and highly subjective and, therefore, should not be issued.

If you have any questions concerning these comments, please call me at 901-523-4168.

Sincerely,

Bonnie Zoccola

Vice President Accounting