

LEHMAN BROTHERS

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MANAGING DIRECTOR

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Financial Accounting Standards Board
401 Merritt 7
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Gentlemen,

Lehman Brothers writes this letter in order to address the Financial Accounting Standards Board's ("FASB") Exposure Draft entitled "Consolidated Financial Statements: Policies and Procedures". The Exposure Draft expands the situation in which consolidated financial statements would be required. As the head of Lehman Brothers new issue equity department I am particularly concerned about the capital market implications associated with these proposed changes.

The Exposure Draft sets forth, as the predicate for consolidation, the notion of *effective control* which will be added to the current GAAP standards of legal control. In addition, on a conceptual basis, the Exposure Draft concludes that a parent and its affiliates should be viewed as a single economic unit. This is true, moreover, even if the affiliate is not wholly-owned. As a result, among other things, a parent that divests itself of a portion of its stake in a controlled subsidiary (that it continue to control) would not record a gain or loss on the transaction. We feel, therefore, that the proposal is flawed.

Our principal concerns with the FASB Exposure Draft are the direct impact these changes would have on investors' ability to evaluate companies' results in an informed manner and the potential for accounting abuse which may result in companies reporting misleading information. We believe the negative impact will particularly be felt by the international investment community which look to the US as the standard for transparent accounting practices.

From the market's perspective, investors want an accounting system which accurately reflects companies' economic results in a simple and consistent format. The Exposure Draft has proposed several rules which will strongly impel managements to make decisions based on short-term accounting results rather than true economic results. In the long run, this will hurt both stockholders and bondholders. In addition, the requirement to restate results historically could cause a major distortion in valuations-- both positively and negatively-- of companies which have been acquisitive.

Parent companies which have been smart investors will be unfairly punished by not being allowed to realize gains on spin-offs when institutions have often specifically purchased shares in these companies due to this acquisition savvy. Companies which have investments in a number of subsidiaries and affiliates will have considerable accounting flexibility to record both gains and losses as they see fit. It is possible for clever (or disingenuous) accounting to have a major, unjustifiable impact on a company's stock price around the time of quarterly reporting. Furthermore, companies will have great incentive to make acquisitions in two or more stages which could impact investors holding shares in the target companies in addition to making these acquisitions and divestitures more expensive to execute.

As mentioned, international investors will be particularly affected as they already have a difficult time with the concept of goodwill. Additionally, one of the major attractions of the US equity and bond markets by international investors is the transparency of the accounting system which makes company analysis fairly straightforward. Unlike other countries, such as those in Europe, the US market has not encouraged companies to use accounting loopholes-- particularly in the case of conglomerates or companies with multiple subsidiaries/affiliates-- to enhance or depress economic results. We believe the proposed changes cloud the true economic picture of a company and reflect poorly on the integrity of the US financial system.

We have not tried to analyze the Exposure Draft from an accounting perspective, although we do believe there are some major flaws. From the capital markets perspective, however, we see the potential for major benefits or penalties being accorded to companies without the associated economic impact. We will be happy to discuss our views with you in the near future.

Sincerely,

A handwritten signature in black ink, appearing to read "B. W. Wright", with a long horizontal flourish extending to the right.