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Director of Research and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-0700

Proposed Statement of Financial Accounting Standards "Consolidated Financial Statements: Policy and Procedures"

Dear Director of Research and Technical Activities:

I am pleased to provide our comments on the proposed Statement of Financial Accounting Standards: Consolidated Financial Statements: Policy and Procedures. Under the Exposure Draft (ED) more companies would be consolidated than under existing standards. We do not support the Board's recommendation in the ED that allows the application of consolidation to 50 percent and less owned companies.

Overall Views

Overall, we believe the Board has not made a compelling case to warrant a substantial change in the current reporting standards. We believe the existing standards, ARB No. 51 Consolidated Financial Statements, as amended by FASB Statement No. 94 Consolidation of All Majority-Owned Subsidiaries, adequately presents the results of operations and financial position of the parent when the investee is not majority owned.

If a parent does not own more than 50 percent of the voting stock of an investee, we believe that it usually does not have the power to control the entity's assets to achieve the parent's objectives. The possibility of obtaining control at some point in the future, by unilateral action or by some other event, does not mean that the investor has control currently. Expanding the definition of control to include circumstances where the investor does not have control is inappropriate and would result in less meaningful financial statements for users. Furthermore, we believe that financial statement users have not indicated a strong desire for the types of changes recommended by the Board.

Assessing the Existence of Control

Paragraph 14 of the Exposure Draft lists the six indicators in which the Board believes an entity shall be presumed to have effective control of another entity. These indicators make the assumption of effective control in the absence of evidence to the contrary. With respect to three of the six indicators, our view is that certain exceptions, as defined below, should not lead to a presumption of control, and therefore, consolidation.

Presumption A indicates that ownership of a large minority voting interest (approximately 40%) where no other party or organized group of parties has a significant interest leads to the presumption of control. This presumption ignores the fact that a number of shareholders may not view certain issues as significant (e.g. nomination of board member), and therefore, may not participate in that particular vote. Some shareholders may only vote when there is an issue significant to them. Therefore, we do not believe this presumption should indicate control of an entity and the requirement for consolidation.

Presumption B indicates that an ability demonstrated, by a recent election, to dominate the process of nominating candidates for another entity's governing board and to cast a majority of the votes cast in an election of board members leads to the presumption of control. This presumption overlooks the fact that a shareholder may agree with the company's decision regarding current operations and, in that particular instance, may not vote. Moreover, some shareholders only vote when they are in disagreement with an issue. Not casting a vote should not be presumed to be an indication of an inability to vote. Therefore, we do not believe this presumption should indicate control of an entity and the requirement for consolidation.

Presumption F indicates that a sole general partnership interest in a limited partnership leads to the presumption of control. We believe this presumption ignores the sole general partner who has an insignificant amount of equity. Therefore, we believe it would be inappropriate under this circumstance to consolidate the general partner and believe current standards in this area are adequate.

The definition of control in the ED is, in our view, a broad definition. We believe replacing an objective, verifiable ownership test, that generally requires more than 50% voting interest, with a more subjective test would lead to increased diversity in practice. It is difficult to envision all of the practical problems that will arise if the objective test of majority ownership is dropped. No one list of indicators, as the ED has tried to provide, would ever be complete. In certain circumstances under this proposal, consolidation of an entity by more than one company could be possible.

The criterion of effective control would require a company to evaluate the circumstances on an annual basis in order to determine which entities should be consolidated. Our view is that this annual assessment would be burdensome and costly for companies and would not provide comparative financial information meaningful for financial statement users. Furthermore, this subjective criteria would be extremely difficult to have audited.

Changes in a Parent's Ownership Interest in a Subsidiary

Paragraph 29 of the ED outlines the reporting requirements of a change in a parent's ownership interest in a subsidiary. As minority interests, under this ED, are classified as equity, changes that occur after a subsidiary is acquired that do not result in a loss of control by the parent would be

accounted for as transactions in equity with no gain or loss being recognized. Additionally, the same accounting treatment would be applied when a subsidiary issues stock to others. We believe this recommendation effectively supersedes the SEC Staff Accounting Bulletin (SAB) 55 Accounting for Sales of Stock by a Subsidiary, and therefore, has a direct impact on the public companies that have elected to follow SAB 55.

Effect on Other Established Accounting Standards

An area that is unclear, but of real concern to companies such as INSO Corporation, is whether an entity would be precluded from entering into a pooling of interests business combination because it would no longer be considered autonomous under APB Opinion No. 16 Business Combinations.

Presentation of Minority Interest

The ED proposes to change the reporting practice relating to minority interests. The long-standing practice of displaying minority interest between liabilities and equity is most common because most financial statement users consider minority interest as neither equity of the parent nor a liability. The noncontrolling investors of a subsidiary do not have an ownership interest in the subsidiary's parent, and therefore, should not be displayed as owner's equity. We are not aware of financial statement users protesting this practice and the Board has not made a convincing argument that change is needed.

Conforming Accounting Policies and Fiscal Periods

Paragraph 31 of the ED indicates that, for purposes of consolidated financial statements, a parent and its subsidiaries should apply a constant accounting policy for similar transactions or events unless generally accepted accounting principles permit a single entity to use different accounting methods for the same type of transactions. As there may be instances in which entities would be consolidated in one year and not the other, it would be impractical for entities to continually evaluate and change their accounting policies. Furthermore, financial statements would be less meaningful to users as information would not be consistent from year to year.

Paragraph 33 of the ED indicates that the financial information of a subsidiary in consolidated financial statements shall cover the same fiscal year as it parent's information unless conformity is not practicable. We believe, in situations in which the parent and the subsidiary have substantially different reporting periods, that this recommendation would not improve financial reporting. Furthermore, we believe this practice would be in conflict with the SEC which requires that a subsidiary's fiscal year may only differ from its parent by 90 days.

Reporting Changes in Ownership

The ED provides that a change in ownership after a subsidiary is acquired that does not result in a loss of control would be accounted for as a transaction in the equity of the consolidated entity, with no gain or loss recognized. In our opinion, this provision would lead to manipulation in practice of gain or loss in a series of purchases and sales. It would be possible to create a series of transactions where upon the sale of a subsidiary by the parent, a gain could be recorded, when in fact, the subsidiary was sold for less than the parent had invested in it.

Adoption

Paragraph 37 of the ED indicates that comparative financial statements for earlier periods including those of the year of adoption will be restated when the statement is first applied. We believe this restatement would be overly burdensome for companies and would increase the time and cost of the preparation of the financial statements which is inconsistent with the SEC's recent proposal to streamline financial statements.

We recognize that there are concerns surrounding the present practices for accounting for consolidations. However, in our view, those concerns should be addressed more narrowly, not by a sweeping change to the present practices which have been in place for nearly forty years and are not viewed as seriously flawed. We believe that the proposal would not improve present reporting practices, that the FASB has not made a compelling argument to change, and that the proposal should be withdrawn.

We appreciate the opportunity to present our views and would be pleased to discuss any aspect of our comments further.

Sincerely yours,
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Betty J. Savage

Chief Financial Officer