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Gentlemen:

Enron Corp. (Enron) appreciates the opportunity to comment on the Exposure Draft, "Consolidated Financial Statements: Policy and Procedures". Enron, a vertically integrated natural gas company headquartered in Houston, Texas with assets of \$13 billion and revenues of \$8 billion, operates one of the largest natural gas transmission systems in the world totaling 44,000 miles on two continents; is the largest purchaser and marketer of long-term natural gas supplies in North America; owns 61 percent of Enron Oil & Gas Company, one of the largest independent exploration and production companies in the United States; and is one of the largest independent developers and producers of electricity in the world.

GENERAL COMMENTS

Enron believes there is no need to substantially revise the current consolidation policy and procedures. The current policies are well defined and appear to have accurately reflected the economic activities of the parent company and the majority owned subsidiaries on a consistent basis. The procedures used in preparing the consolidated financials should continue to follow the parent company approach. The consolidated financial statements for a business enterprise are intended to serve primarily the needs of the shareholders of the parent. Accordingly, the consolidated financial statements should include only the subsidiaries for which the parent can unconditionally realize the full benefits or risks associated with the cash flows.

Enron believes the Exposure Draft is a significant change from the current model which could negatively impact the users and preparers of the financial statements. The proposed consolidation policy is judgmental and will result in less comparability among entities. It provides for entities to be consolidated in which the parent has minimal ownership and therefore the statements will include assets, income and cash flow in which the shareholders have little or no ownership. The consolidated procedures provide for nonsensical accounting results in many cases.

SPECIFIC COMMENTS

Consolidation Policy

Control of an Entity

The predominant condition for controlling a financial interest should continue to be measured by legal control. Under legal control there is assurance that the parent can direct the use of the assets of the subsidiary to obtain maximum benefits of the cash flows. If a company owns less than fifty percent of another entity, control over that entity's cash flows is not assured. Under the guidance in the Exposure Draft, a parent could potentially consolidate entities in which it held very minimal ownership (in some cases as small as one percent). In such an instance, the parent would have no exclusive power to benefit from the cash flows of the subsidiary.

Enron does believe, however, that it would be appropriate to consolidate subsidiaries that the parent does not legally control if the parent has the ability to obtain legal control (item (c) of paragraph 14 of the Exposure Draft).

Assessing the Existence of Control

Enron believes that items (a), (b) and (f) of paragraph 14 of the Exposure Draft are arbitrary and subjective and do not necessarily indicate the existence of effective control. All three of these characteristics assume that the other shareholders or partners are indifferent and would never exercise their voting rights if transactions unfairly benefited a large minority shareholder or general partner. But in a real sense, the large shareholder is not necessarily exercising control when other shareholders are indifferent, but can act only when the other shareholders are not harmed by the large shareholder's actions. At the point at which the other shareholders are displeased with the actions of the large shareholder, it is prudent to assume that they would exercise their option to vote and exercise influence. However, under the Exposure Draft the large shareholder may be required to assume that it could control the entity at all times unless it had evidence to the contrary.

The change proposed by the Exposure Draft would make the assessment of control more subjective, resulting in less comparable financial information. It is possible that management of different entities would make different assessments of similar situations. In addition, entities could move from control to non-control and back again based on differing assessments even though the ultimate risk and reward to the parent had not changed.

Because of the nature of special purpose entities, Enron believes that they should be addressed separately and not included under the same rules as entities in which the parent holds a substantial ownership. In the case of these entities, the real issue is the extent to which other owners are at risk.

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Temporary Control

Enron believes temporary control should be expanded to all subsidiaries, not just newly created subsidiaries. Classification should be based on the intent of management.

Consolidation Procedures

Elimination of Intercompany Transactions and Balances

Enron believes that current practice with respect to intercompany transactions, using the parent company approach, continues to be appropriate.

Reporting Noncontrolling Interest in Subsidiaries

Enron disagrees with any changes to the classification and display of the noncontrolling interest. Shareholders' equity represents the residual interest of the stockholders of a company. Those stockholders have no rights or claims to the noncontrolling (minority) interests. Likewise, the noncontrolling interest has no interest in the equity or earnings of the parent and should be excluded from total earnings and stockholders' equity. The Exposure Draft indicated that the noncontrolling interest did not meet the definition of a liability. However, there are other financial instruments that may not meet the strict definition of equity or a liability (such as manditorily redeemable preferred stock) which are classified between the liability and equity sections of the balance sheet.

Acquisition of a Subsidiary

Enron believes the current practice is appropriate and an acquisition should reflect the assets and liabilities at the acquired cost and the noncontrolling interest at historical cost.

Changes in a Parent's Ownership Interest in a Subsidiary and Disposition of a Subsidiary

Enron does not agree with reflecting as equity transactions changes in a parent's proportionate ownership interest in a subsidiary that do not result in a loss of control. Enron believes a sale by the parent of an ownership interest (such as a secondary offering) to an outside party has completed the earnings process. The parent has lost the benefit or risk of the future cash flows related to that proportionate interest. Under FASB Concept Statement No. 2, representation faithfulness is a major principle of financial reporting. The underlying economic event of a selldown of an interest in a subsidiary is that the parent has traded future risk and reward for cash or other assets. To be representationally faithful, the accounting for such transaction must show the termination of the parent's interest in those assets and measure the results of management's action at the time of the transaction. Enron does not believe there is a difference between a subsidiary selling 45 percent of its assets and the parent recognizing its proportionate share of the gain versus the parent selling 45 percent of its interest in the subsidiary.

Enron believes the Exposure Draft approach to changes in ownership interest will also result in inconsistent accounting for similar transactions. For example, Company A sells its ownership interest in a subsidiary in two offerings with the second offering resulting in loss of control. Company B sells its ownership interest in one offering which results in loss of control. In this situation the two companies would report different results for the same transaction.

The application of this procedure could also provide for inconsistent results where the purchase was made in steps. For example, Company A purchases a company in a two step transaction with the first step acquiring a controlling interest of 40 percent and the second step purchasing the remaining 60 percent. Company A then sells the newly purchased company for the original purchase price. Company A would recognize a gain on the sale because goodwill would not be recorded on the second step of the purchase. If Company A had purchased 100 percent of the newly acquired company in one step the ultimate sale at the original purchase price would not result in a gain.

Conforming Accounting Policies and Fiscal Periods

Enron concurs with the Exposure Draft's position on conforming accounting policies and fiscal periods. Subsidiaries within a consolidated group should not apply different accounting principles to similar transactions. However, if a subsidiary qualifies for specialized accounting, that accounting policy should continue in consolidation.

<u>Combined Financial Statements</u> and <u>Disclosure about Formerly Unconsolidated Majority-Owned Subsidiaries</u>

Enron concurs with the Exposure Draft's position on combined financial statements and disclosure about formerly unconsolidated majority-owned subsidiaries.

Summary

As previously indicated Enron does not agree with the Exposure Draft and believes that current rules governing consolidation policy and procedure are adequate. However, if the Exposure Draft is adopted, Enron suggests the following revisions:

- Procedures for changes in a parent's ownership interest in a subsidiary when the parent
 maintains control should provide for gains and losses on <u>secondary offerings</u> and
 increased basis (goodwill) for additional purchases. This will avoid the current
 inconsistencies under the Exposure Draft.
- Restatement under the Exposure Draft should exclude consolidation of subsidiaries (not previously consolidated) if in the year of the restatement (1997) the parent no longer controls the entity. Since the Board has acknowledged that restatement for the provisions of paragraphs 19 21 and 26 33 may not be practical in certain instances, the Board should eliminate the requirement to restate for those paragraphs in order to ensure comparability among all financial statement issuers.

- Restatement under the Exposure Draft should exclude restatement of earnings. Enron can see no benefit of changing earnings that investors have previously relied upon.
 Transactions may have been structured differently had the Exposure Draft been in place in prior years.
- The effective date of any final Statement should be moved to 1998 to provide adequate time for companies to amend agreements or subsidiary structures to avoid credit or other defaults.

Enron appreciates the opportunity to comment on this matter and would be glad to discuss it at your convenience.

Sincerely,

Jack J. Sompkins

Jack I. Tompkins

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