DEAN WITTER, DISCOVER & CO.

ROBERT P. SEASS Senior Vice President and Controller

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

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Dear Mr. Lucas:

Dean Witter, Discover & Co. appreciates the opportunity to respond to the Exposure Draft, "Consolidated Financial Statements: Policy and Procedures."

The proposal could have a significant impact on the way in which consolidated financial statement information is reported. While we support the notion of control as the basis for consolidation, we believe the scope of the proposal is too broad. We believe that financial statement users are comfortable with the current framework of consolidated financial statements and, as such, their basic form and content should not be radically changed.

Application of the Control Concept

We believe that a reporting entity should consolidate all entities that it "controls" unless control is temporary, with the latter based on management's intent and prior practice for similar investments. However, the only presumption of control should be a majority ownership interest; i.e., legal control. In the absence of legal control, there should be a presumption that control does not exist. Other facts and circumstances may be indicative of a high degree of influence over an investee, but control should be demonstrated as to both legal enforceability and the ability to retain control once achieved. The principal difference between the proposal and current consolidation rules *should be* that while current rules generally prohibit consolidation of less-than-majority-owned investees, the new standard would eliminate that prohibition and recognize that consolidation of a minority interest investee may be appropriate, although only in rare cases, and only based on the facts and circumstances of each case.

We agree that consolidation is appropriate only when there is an ability to control the individual assets of an investee for the benefit of the investor, and the investment is other than temporary. However, except in rare cases, we do not believe that this degree of control can be exercised by a minority investor. While a minority investor may be able to influence how the net resources of the investee are used (for example, dividend or capital policies), the minority investor could not, for example, arbitrarily remove individual assets from an investee for its own benefit, a limitation which indicates that control of individual assets is not present. Where a minority investor has significant influence over an investee, but cannot exercise control over individual assets for its own benefit, the equity method rather than consolidation is the appropriate financial reporting presentation.

Users of financial statements should be able to assume that similarly reported assets have the same essential "utility" to the reporting entity. However, the proposal would likely impair the user's ability to determine how individual assets within a consolidated grouping of similar assets may actually be used for the benefit of the consolidated group.

Consolidation of Limited Partnerships

Without a majority equity position, a general partner should not be presumed to have control of a limited partnership. While general partners may have extensive rights, a general partner has legal, contractual and fiduciary responsibilities to the limited partners, and thus generally cannot act without considering those interests. The general partner would be prohibited from removing individual assets from the partnership solely for its own benefit, and it has no ownership of specific assets. Partners are deemed to have undivided, proportionate property interests, which may be inconsistent with full consolidation by any one partner, even where the partner has a majority equity position. If the Board believes that the financial reporting for partnership interests should be changed, then the issue should be considered in a separate project because of the unique issues involved.

General partners often have only a minimal equity interest in a limited partnership, and in fact may have no equity interest at all. As a practical matter, consolidation of limited partnerships would create misleading financial statements and the integrity of the general partner's financial reporting would be impaired, in particular because its balance sheet would include assets over which it has neither control nor ownership rights. We agree with the alternate view (in paragraph 141) of the Board member who "... objects to the requirement to consolidate a limited partnership that is controlled by a general partner that has a small equity interest except where other arrangements (e.g., rights to proceeds from asset sales beyond those represented by its equity interest) give the general partner the major share of the ultimate net cash flows."

Reporting Minority (or Noncontrolling) Interests

We disagree with the proposal to report minority (or noncontrolling) interests as a separate component of equity in consolidated financial statements. Rather, we agree with the view set forth in paragraph 102 of the proposal that "...a noncontrolling interest is neither equity of the parent nor a liability." We believe that the current reporting for minority interest, as a component outside of shareholders' equity should be continued. Shareholders' equity should only reflect the net assets available to the shareholders of the reporting entity, which this proposal does not achieve. By including minority interest, consolidated equity is distorted, as are all the related performance measures (e.g., return on equity). Sophisticated financial statement users, including analysts, rating agencies and regulators, would have to adjust reported equity to obtain useful financial information.

Merchant Banking Investments by Securities Firms

We agree with the proposal to exempt "investment companies" from the scope of the standard. However, we believe that merchant banking investments by securities firms should also be specifically exempted from the standard. Merchant banking investments are made because they represent opportunities for superior financial returns from the ultimate sale of the investment. To securities firms they are investment banking products. While an exit strategy may not be in place at acquisition, merchant bankers dispose of investments as soon as practical. The exemption should be granted because they are in substance temporary investments. In addition, consolidation of merchant banking investments would distort the financial statements of the reporting entity because from period to period the nature of the

reporting entity could change dramatically based simply on changes in the industry mix in its portfolio. There would be no meaningful way to measure the on-going performance of the entity.

The investment company (including merchant banking) exemption should be extended to all levels of consolidation where the investment company is included. The same arguments which would make consolidation of merchant banking investments inappropriate at the investment company level are equally applicable where the investment company is itself a subsidiary of another entity and is included in the consolidated financial statements of its ultimate parent.

Relationship to "Asset Transfer" Exposure Draft

The scope of the "consolidation policy" proposal includes special purpose entities used in securitization transactions. However, such entities are usually an integral part of the structure of a securitization transaction, for which the appropriate accounting is prescribed in the Board's proposal, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." While both the "asset transfer" and "consolidation" standards apply the notion of control, we are concerned that a literal application of the "consolidation" standard might lead to the consolidation of interests sold by certain special purpose entities, even though the transaction qualifies for sale treatment under the asset transfer standard. It is our understanding from the Board's extensive deliberations on this issue that it is the Board's intent that the asset transfer standard govern for the determination of sale treatment and that the separate application of the consolidation standard should not yield an inconsistent result. The discussion of special purpose entities was, therefore, kept to a minimum in the consolidation proposal. While we agree that this is the correct approach, the Board's intent has not been clearly stated in either proposal, and thus wording should be included in the basis for conclusions for both standards to make the Board's intent clear, thus avoiding the possibility for an improper application of the consolidation standard.

We also draw the Board's attention to the response, dated January 15, 1996, to this proposal from Mayer, Brown & Platt on behalf of itself and the financial institutions listed at the end of that letter, to which Dean Witter, Discover & Co. is a signatory. That letter further amplifies reasons why consolidation of certain securitization structures is not appropriate.

In the event that the asset transfer standard is delayed, or if its ultimate issuance is in doubt, but the consolidation standard is issued, securitization special purpose entities should be excluded from the scope of the consolidation standard until the Board has an opportunity to reconsider the accounting for securitization transactions. In that case, the consolidation standard should clearly state that until, or unless, SFAS 77, Reporting by Transferors for Transfers of Receivables with Recourse, is superseded, SFAS 77 would continue to be the governing standard, in the same way that the proposed asset transfer standard would be if it were issued.

We appreciate the opportunity to comment on this proposal. Should you have any questions about our comments or additional issues, we would be pleased to discuss them with you. Please direct your questions to either Bill Grunau (212-392-4340) or Staci Lublin (212-392-6482).

Sincerely,

Robert P. Seam