Comment Letter No. | File Reference: 1082-194R Date Received: 3/23/99

One Pine Lane Valley Stream NY 11581 March 7, 1999

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk CT 06856-5116

Director of Research and Technical Activities File Reference No. 194-B

Dear Sirs:

I have the following comment on Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Purpose and Policy," dated February 23, 1999:

The first sentence of paragraph 7 states that "The purpose of consolidated financial statements is to report the financial position, results of operations, and cash flows of a reporting entity that comprises a parent and its affiliates essentially as if all of their assets, liabilities, and activities were held, incurred, and conducted by a single entity with one or more branches or divisions." The contrast between the use of the terms "reporting entity" and "single entity" in that sentence is vague, since a reporting entity could be considered a single entity. I assume you mean "single legal entity" rather than "single entity" in that sentence. That is supported by your reference to "separate legal entities" in the next sentence.

With that change, the first sentence of paragraph 7 becomes "The purpose of consolidated financial statements is to report the financial position, results of operations, and cash flows of a reporting entity that comprises a parent and its affiliates essentially as if all of their assets, liabilities, and activities were held, incurred, and conducted by a single legal entity with one or more branches or divisions (emphasis added)."

Consolidated financial statements are thereby defined as fictions, "as if" they were something they aren't. That way of defining them is consistent with their previous authoritative descriptions: ARB No. 51 stated in paragraph 1 that consolidated financial statements "...present ...the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions." And International Accounting Standard No. 3 defined consolidated financial statements in paragraph 4 as "...statements which present the assets, liabilities, stockholders accounts, revenue, and expenses of a parent company and its subsidiaries as those of a single enterprise."

Defining the consolidated reporting entity as it is not turns consolidated statements into pro forma information. It provides precedent for injecting other pro forma aspects into financial statements, which should

be factual parts of financial reports. Such a tendency should be resisted wherever it's accepted or proposed. All financial statements, including consolidated financial statements, should be factual reports of what is and what happened; fictions should be excluded. Pro forma information included in financial reports should be separated from the financial statements and labeled as such. Further, it is unnecessary to define consolidated financial statements in fictitious terms.

I suggest that you define consolidated financial statements as what they are, not what they aren't. A consolidated reporting entity isn't fictitious and it isn't a single enterprise. It's a group of companies united for economic activity by common control.

I suggest that you revise the first sentence of paragraph 7 to the following; "The purpose of consolidated financial statements is to report the financial position, results of operations, and cash flows of a reporting entity that comprises a parent and its affiliates as a group of companies united for economic activity by common control."

Sincerely,

Sand Posinfield
Paul Rosenfield