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Director of Research and Technical Activities Financial Accounting Standards Board File Reference No. 194-B 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Please consider our comments on the February 23, 1999 Exposure Draft of the Proposed Statement of Financial Accounting Standards, <u>Consolidated Financial Statements: Purpose & Policy</u>. We appreciate the opportunity to comment on the exposure draft.

There are two areas we would like to comment on. One deals with the basic concept of control. The other with the concept of control through a large minority interest.

1. Definition of Control and Application

It is our opinion that the Board's revised definition of control is reasonable in theory and better defined, but in practice, it undoubtedly will create inconsistencies in interpretation and application. Current accounting for investments in other entities is consistent in that the guidelines for consolidation are clear and well defined. This allows the users of financial statements to have reasonable assurance that the application of consolidation rules is on a consistent basis both within and outside of a particular industry. Consolidation based solely on effective control (where legal control does not exist) has the potential of being subjectively applied.

The Draft identifies factors of control which include the <u>non-shared decision making ability</u> and the ability to use that power to <u>increase benefits that a company derives and limit the losses that it suffers</u> from the activities of another entity. The draft indicates that the assessment of control shall include <u>weighing the significance of the relevant facts and circumstances surrounding a particular relationship.</u> These factors, even with the additional guidance, are likely to be interpreted inconsistently in practice and as a result, may not result in an overall improvement in financial reporting.

2. Control through a Large Minority Interest

We disagree with the notion of "consolidation by default" through ownership of a large minority interest. We believe there are several theoretical and practical implementation problems. On the one hand, some minorities may not exercise their voting rights because they are indifferent to the outcome of matters submitted for a vote. Their passivity could change if issues that are more fundamental were brought forth. On the other hand, if we accept the concept we still have measurement problems because of the lack of clear parameters for determining when control occurs through a large minority interest. For example, would consolidation occur the first year that situation (b) in paragraph 18 of the Exposure Draft is met? How many years would indicate a reasonable degree of frequency? Do you cease consolidating when passive minorities become more active? These parameters will create uncertainty and volatility. It is difficult to conceptualize how they could be made to work.

Lastly, in order to maintain comparability, we concur that it would be beneficial to apply this statement for all reporting periods following adoption. We do recommend because of the complexities of retroactive application, that the effective date be deferred another year.

We hope you consider our comments. I can be reached at 612-726-2252 if you wish to discuss our comments.

Sincerely,

Rolf S. Andresen Vice President, Finance and Chief Accounting Officer