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Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P.O. Box 5116
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Dear Mr. Lucas:

GTE is pleased to have the opportunity to comment on the FASB's Exposure Draft on consolidated financial statements policy and procedures. GTE is the largest U.S.-based local telephone company with domestic and international operations serving the United States, Canada, the Dominican Republic and Venezuela. GTE is also a leading mobile-cellular operator in the United States, with the potential of serving 67 million cellular and personal communications service customers. Outside the United States, GTE operates mobile-cellular networks through affiliates in Canada, the Dominican Republic, Venezuela and Argentina. GTE is also a leader in government and defense communications systems and equipment, aircraft-passenger telecommunications, directories and telecommunications-based information services and systems. GTE is both a preparer and a user of financial statements.

In general, GTE's management supports a clarification of the current consolidation policy and procedures guidance contained in Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries* (FAS 94). However, we believe that this clarification should be in the form of an amendment to FAS 94, focusing only on the definitions of control and temporary, rather than the creation of a new standard that alters the "parent company" concept of consolidation. We strongly believe that the parent company concept is operational, consistently applied, generally not subject to abuse and is widely understood and supported by preparers and auditors of financial statements. Furthermore, the financial community understands, and gives appropriate recognition to, transactions involving minority interests under the parent company concept. Consequently, we do not believe that a change from the parent company concept of consolidation is warranted or useful, particularly if the justification for the change is based largely on the fact that minority interests do not fit within the FASB's conceptual framework. Accordingly, we support only amending FAS 94 by redefining control and defining temporary as they relate to consolidation policy and procedures.

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In reviewing the provisions of the Exposure Draft, we noted some operational and practical concerns with regard to the FASB's definition of effective control. In our view, the notion of control defined in the Exposure Draft as the "power to use or direct the use of the individual assets of another entity in essentially the same ways as the controlling entity can use its own assets" does not present meaningful guidance that indicates when consolidation is appropriate. Our concerns principally relate to the criteria described in paragraph 14.a. of the Exposure Draft ("ownership of a large minority voting interest (approximately 40 percent) and no other party or organized group of parties has a significant interest").

We believe that the provision requiring consolidation at "approximately" a 40 percent voting interest level will be viewed as a "bright line" requiring consolidation similar to "majority-owned" described in FAS 94, without regard for individual facts and circumstances in evaluating effective control. An example of such a circumstance relates to foreign investments by U.S.-based companies. As currently written, the Exposure Draft would indicate that a 40%-owned foreign investment, in which there are no other significant holdings, should be consolidated by an investor despite evidence that the investor actually has significant influence, but not control, over the use of individual assets once committed to the operation. Examples of such a limitation on the control over investee assets are restrictions, enforced by a local government, on dividends or the transfer of ownership of the investment. Accordingly, we propose that paragraph 14.a. be deleted from the Exposure Draft. Alternatively, the Exposure Draft should exclude the guidance of "approximately 40 percent" in paragraph 14.a. and include an evaluation of individual facts and circumstances in further defining effective control.

The remaining criteria for assessing the existence of effective control contained in paragraph 14. of the Exposure Draft represent reasonable and supportable criteria for consolidating an investment that is not majority-owned. In addition, we believe that the Exposure Draft's definition of temporary (relinquishing control generally within one year) for the purpose of not consolidating controlled entities is appropriate.

The financial statement display and accounting related to minority interests proposed by the Exposure Draft represents a substantial change in current practice that we do not believe is warranted or useful. We strongly support the parent company concept of consolidation and, accordingly, do not believe that minority interests should be viewed similar to the ownership interests of the parent company's shareholders by classifying minority interests in the parent's shareholders' equity. We believe that minority interests have different rights and responsibilities than the parent's shareholders, which necessitate the separation of minority interests from the parent's shareholders' equity. Accordingly, we believe that the separation of minority interests from equity should be continued. Furthermore, we believe that the Exposure Draft raises an inconsistency in financial reporting by requiring the reporting of the aggregate amount of minority interests as a single amount in shareholders' equity, rather than

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the separate components (e.g., common stock, paid-in capital, retained earnings, etc.). In short, we believe that the separate amount of minority interests is no more meaningful in shareholders' equity than current reporting practices.

In addition, consistent with our view of the parent company approach to consolidation, we do not believe that transactions related to noncontrolling interests should be accounted for similar to treasury stock. We anticipate that the FASB's "economic unit" approach will generate operational issues that are not encountered in applying the parent company approach. One example is the repurchase of a significant minority interest outstanding at a cost considerably above recorded value, which would generate a substantial debit in shareholders' equity. Another example is the attractiveness of a 51% and 49% step-by-step acquisition strategy to minimize the goodwill recorded in a purchase business combination. Accordingly, we believe that the parent company approach to consolidation continues to be appropriate, and is clearly preferable to the economic unit approach.

In summary, we strongly disagree with the provisions of the Exposure Draft that change the current accounting and reporting procedures relating to minority interests. This view appears to be widely shared by the FASB's constituency based on the responses to the previously circulated Discussion Memorandum on this subject. As indicated in paragraph 111. of the Exposure Draft, more than half of the respondents to the Discussion Memorandum continue to support the parent company approach. We believe that such an unwarranted and unnecessary change will detract from the FASB's position as the leader in establishing reasonable and appropriate financial reporting guidance.

GTE appreciates the opportunity to express our views to the FASB on important issues facing preparers and users of financial statements. We hope our views will be helpful to the FASB in its consideration of these issues.

Very truly yours,



J. Michael Kelly
Senior Vice President - Finance