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The Dow Chemical Company
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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, CT 06856-5116

Dear Sir:

We have reviewed the Exposure Draft titled, Consolidated Financial Statements: Purpose and Policy, and offer the following comments for your consideration. Our comments are from the perspective of a preparer of consolidated financial statements for a Fortune 500 multi-national company and SEC registrant.

The guidance applies a blanket approach to examining control in every conceivable economic relationship between entities. We do not believe that such an approach is appropriate, nor necessary, given existing literature on consolidation. We also do not believe that application of this guidance will necessarily achieve the objective of improving the relevance, reliability, and comparability of consolidated financial statements.

Before responding to the specific issues raised in the Exposure Draft, we offer the following general comments related to special purpose entities (SPEs).

We believe that, in many cases, SPEs are created to serve multiple purposes that, when taken individually, may benefit one or more parties to a transaction. These purposes can and do serve business objectives totally unrelated to issues of control. We object to subjecting such SPEs to the control scrutiny contained in this guidance, as we believe control rests with no single party in these cases.

SPEs are used in most build-to-suit lease transactions. These transactions are structured to meet all existing USGAAP relative to leases. The Exposure Draft is vague as to its application to SPEs, covering the subject strictly in the examples. If it is the intention of the FASB to alter accounting for leases, we strongly believe the FASB should address this subject through revised guidance on leasing transactions.

Our responses to the specific issues raised in the Exposure Draft are attached. We appreciate the opportunity to submit our comments.

Sincerely,

Frank H. Brod
Director of Accounting

Attachment

Issue 1

We do not believe the revised definition, discussion of the characteristics of control, and descriptive guidance help clarify when one entity controls another. We believe the discussion is confusing in terms of its co-existence with current guidance on the equity method of accounting for investments in common stock. The guidance in APB 18 is primarily objective, with the issue of “significant influence” being subjective. If anything, the characteristics of control and descriptive guidance in the exposure draft bring even more subjectivity to the exercise of determining whether or not to consolidate an entity.

Entities in which control “otherwise rests with no single party” are not adequately addressed. The descriptive guidance gives the impression that all entities should be consolidated by another entity. Likewise, it doesn’t consider that large multi-national companies most likely have interests in entities that are not subject to US GAAP requirements, except through reporting in the US registrant’s financial statements. The implementation guidance doesn’t speak to coordinating the decision making process with multiple partners outside the U.S.

Paragraph 36 states that “...decision making powers alone or an ability to derive benefits alone are not sufficient for purposes of this Statement’s definition of control.” We are concerned that although judgment and a review of all pertinent facts and circumstances is called for, the continuous expounding of guidance does not facilitate such a review nor does it provide a much needed hierarchy for decision making.

We believe that it is entirely possible for an entity to be consolidated by more than one company based on how the guidance is written. It is naïve to believe that large multi-national US corporations have on-going dialogue with the various business partners that would preclude multiple consolidation of the same entity.

We do not believe the revised definition and guidance will lead to common understandings and application of this Statement’s definition of control. Comments such as “a parent need not demonstrate its decision-making ability to possess that ability” are nonsensical. The counter argument can be made – “a parent need not demonstrate its lack of decision making ability in order to not have that ability.”

We agree with the statement made in paragraph 212 that “further guidance about the required linkage between the decision-making powers and ability to increase benefits and limit losses would be desirable.” Situations described in paragraph 38 are common reasons for creating business relationships and have existed for a long time. We are deeply concerned that the FASB is now attempting to attribute control by one party to such activities “...including those in which a parent may have little or no current ownership interest.”

Issue 2

We do not believe guidance in the form of rebuttable presumptions of control is necessary. We are aware of no specific circumstances that would necessitate additional presumptions of control.

We believe that having a majority interest in the election of a corporation’s governing body or a right to appoint a majority of the members of its governing body is a reasonable basis for presuming control as it is commonly recognized as such from tax and legal perspectives. It is sufficiently clear and operational.

Attachment

Issue 2 cont'd

Likewise, we believe that being the only general partner in a limited partnership when no other partner or partners has the current ability to dissolve the limited partnership or otherwise remove the general partner is a reasonable presumption of control. It reflects the underlying principals of the 1976 Uniform Limited Partnership Act. It is sufficiently clear and operational.

We do not believe that having a large minority interest in the election of a corporation's governing body when no other party or group of parties has a significant voting interest is a reasonable basis for presuming control. This scenario requires another level of examination of the ownership structure of a company that would be burdensome to carry out. Existing equity accounting guidance has adequately addressed this level of investment.

We also do not believe that it is reasonable to presume the right to obtain a majority voting interest at some future date is the equivalent of control in the present. We firmly believe that absent specific action(s) taken to exercise the right, no control exists. It is illogical to presume that the entity with a potential ability to own a majority of the voting stock has control versus the present owner of the majority of voting stock.

Issue 3

We believe there are specific circumstances that would justify not only delaying application to interim periods, but delaying the effective date of implementation as well.

Transitioning from reporting an entity using the equity method to a fully consolidated company should not be oversimplified. There are many issues to be addressed:

- Multi-national companies get involved with companies who do not record their ongoing activities in US Dollars and in accordance with US GAAP.
- Accounting software constraints will present untold challenges for a company now faced with adding companies to their systems at a detailed level.
- Internal management reporting systems have requirements that must be addressed if activity is going to be presented in detail.
- Prior year restatement efforts include reclassifying previously third party activity to an intercompany classification which involves accounting system set up costs and increased intercompany elimination efforts for reporting purposes.
- Increased record-keeping necessary to track and report minority interest liabilities, as well as administrating distributions to minority holders.
- SEC registrants have reporting requirements (10-Q, 10K, annual report to shareholders) which present an additional burden of restatement when a formerly equity method company is material.
- If multiple SEC registrants have legal ownership of an entity, how does one officialize who has control?
- Tax reporting implications, especially if entities are outside the US.

We do not believe that the benefits are sufficient to require, rather than permit, application of the provisions for interim reporting periods in the year of adoption, unless the effective date for implementation is delayed beyond the year 2000. We believe there is insufficient time between now and the proposed effective date to fully address the issues articulated previously in order to implement the Statement. We do not believe that determining control over a given entity is a decision made in a vacuum, without communications and cooperation among the other owners.