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Mr. Timothy S. Lucas
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Dear Mr. Lucas:

First Interstate Bancorp (the Corporation) appreciates the opportunity to respond to the FASB's exposure draft Proposed Statement of Financial Accounting Standards, *Consolidated Financial Statements: Policy and Procedures* (the ED). The Corporation is the fourteenth largest bank holding company in the United States with assets of approximately \$58 billion.

In general, we support the FASB's attempt to develop accounting criteria that emphasize the "substance" over the "form" (e.g., percentage owned) where more than one company owns or participates in the activities of a another entity. The concept of determining whether control exists and, if so, to what degree is a valid means of assessing in what manner a controlled entity's balance sheet and results of operations should be included in the controlling entity's financial statements. However, we believe that there are some issues which should be addressed before a final statement is issued.

CONSOLIDATION POLICY

Definition of Control

The ED introduces the notion that control is obtained when an entity has power over the use of another entity's assets and that this control is "exclusionary" in nature. While we agree that control over another company is a useful benchmark as to "ownership", we question whether the guidelines set forth in the ED are well defined enough to provide adequate direction. Specifically, it appears that "ownership" would now be determined by much more subjective criteria than the percentage of ownership criteria set forth in Accounting Principles Bulletin No. 18, The Equity Method of Accounting for Investments in Common Stock. Therefore, it is possible that more than

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one "owner" of the same company may consider themselves to have control over that company and, therefore, consolidate the same entity because varying degrees of characteristics of a control relationship are present. This could well be the end result since, in particular, control is defined as being both "legal" and "effective" in nature. We believe that the criteria of the ED automatically requires some form of communication between "owners" of the same entity to ensure that there is no duplication of accounting treatment when consolidation is contemplated. Therefore, the criteria as they are currently proposed are too subjective in nature in order to be considered operational.

Assessing the Existence of Control

The ED provides the following criteria for evaluating effective control:

- Ownership of a large (≈ 40%) minority voting interest and no other entity has significant interest
- Ability to dominate the board of directors' nomination process
- Ability to obtain a majority voting interest through ownership of securities/conversion rights
- Creation and involvement with an entity that has no voting stock; status can only be changed by the creator
- Unilateral ability to dissolve the entity
- Sole general partnership in a limited partnership

Appendix B, in paragraph 157, indicates that the above conditions "lead to presumptions of control leaving little doubt about one entity's ability to control another." We do not believe that any one of these criteria is persuasive in and of itself to require consolidation. Rather, we believe that all of these factors, as well as those further outlined in Appendix B, should be considered.

Paragraph 158 outlines other situations which may infer that control has been established many of which are tangential to the conditions listed above. However, many of these indicators seem substantially less compelling than the ones listed in paragraph 14 and, therefore, less supportive of those criteria. Specifically, item (f) "A relationship between two or more entities that requires them to work together to fulfill the business or charitable purpose(s) ..."; item (g) "Retention of a significant minority voting interest in an entity after previously holding a majority voting interest" and item (h) "Beneficial contractual relationships with an entity that continue after previously holding a majority voting interest" require further clarification or stronger arguments.

Paragraph 154 mentions that special-purpose entities are typically created to transfer interests in financial assets and are often limited in their structure with respect to the use of those assets. Therefore, control is often present. This issue has been addressed in our response to the FASB's exposure draft Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

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In describing those relationships where control does not usually exist, general partnerships (paragraph 163) were mentioned as an example. In this instance, care must be taken to differentiate between "legal" control and "effective" control. While all applicable partners may be joint and severally liable under the law, many times there are clear distinctions between which of the partners has responsibility for the employment of assets. In those cases, it may be readily apparent that control rests with one or a select group of partners. Paragraph 167 mentions grant-making foundations as another example where control would not normally exist. Finally, (and perhaps most importantly for financial institutions), paragraph 172 indicates that while a lender may restrict the use of assets pledged as security on a loan, that power is conditional and does not indicate control. We wholeheartedly support this concept.

Temporary Control

We agree with the FASB's decision to retain the exception to consolidation granted in Accounting Research Bulletin 51, Consolidated Financial Statements (ARB 51) and Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries (SFAS 94). The one-year period used to assess whether control is temporary is a reasonable benchmark.

CONSOLIDATION PROCEDURES

Elimination of Intercompany Transactions and Balances

We support the full elimination of intercompany amounts between affiliates within consolidated financial statements. Furthermore, it seems appropriate to allocate the equity effects of such elimination between the controlling and noncontrolling interests.

Reporting Noncontrolling Interest in Subsidiaries

Although not applicable to First Interstate, we believe that a noncontrolling interest in a subsidiary can be appropriately classified as a component of equity as opposed to a liability. Moreover, we do not believe that a separate line item should be created on the balance sheet to report such a relationship.

Acquisition of a Subsidiary

Again, we agree with the accounting treatment advocated by the ED which specifies that, unless pooling-of-interests accounting requirements can be met, the acquirer shall account for the acquisition of a subsidiary by the purchase method. Specifically, the purchase price is to be assigned to each identifiable asset and liability assumed, determined by their fair values. Any excess over the such amounts is to be reported as goodwill only by the parent. No amount of goodwill should be attributed to the noncontrolling interest.

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Changes in a Parent's Ownership Interest in a Subsidiary

We agree with the policies set forth in the ED.

Disposition of a Subsidiary

We agree with the policies set forth in the ED.

Conforming Accounting Policies and Fiscal Periods

We support the concept that accounting policies should be applied consistently within consolidated entities, with exceptions only for immaterial items. In spite of the ED's conclusion (paragraph 135) that there is no need to provide disclosure of an entity's consolidation policy, we believe that such information is useful. Therefore, we propose that the FASB reconsider this issue and retain the requirements of ARB 51.

COMBINED FINANCIAL STATEMENTS

This issue of whether to issue combined or consolidated financial statements does not directly affect the Corporation. However, we support the FASB's decision to not expand the scope of the ED to cover this issue.

DISCLOSURE ABOUT FORMERLY UNCONSOLIDATED MAJORITY-OWNED SUBSIDIARIES

We understand that the FASB plans to address the issue, currently required by SFAS 94, regarding the disclosure of majority-owned subsidiaries that were unconsolidated prior to the adoption of SFAS 94, within the upcoming exposure draft on disaggregated disclosures. We look forward to reading this document and commenting on this disclosure requirement at that time.

OTHER COMMENTS

Footnote 8 in paragraph 65 indicates that this statement does not address the accounting for joint ventures and the FASB has not decided what method should be used to account for such activity. However, paragraph 223 indicates that joint ventures are normally accounted for by the equity method and we agree with this policy. First Interstate recently formed a joint venture with a mortgage company and, utilizing criteria similar to those proposed in the ED, determined that control did not exist with any one of the participants and, therefore, the equity method of accounting was appropriate.

Finally, given the banking regulators recent decision to adopt generally accepted accounting principles as the basis for Call Report preparation beginning in 1997, we will not address differences in the rules of consolidation. However, the concept of "significant influence", used for determining whether "majority-owned" subsidiaries are consolidated and whether "minority interests" exist, would have been issues requiring reconcilement of definitions.

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We appreciate the opportunity to present our comments on the ED. We would be pleased to discuss our views further at your convenience.

Sincerely,

Roger H. Molvar

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