

Letter of Comment No: /04/ File Reference: 1082-154 Date Received:

January 10, 1996

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

RE: Exposure Draft - Consolidated Financial Statements: Policy and Procedures. File Ref. 154-D

Dear Sirs:

We appreciate the opportunity to comment on this exposure draft on consolidation policy. As we previously noted in our comments on the preliminary views document, we believe an entity should be consolidated when the parent controls the entity. And, this ability to control should be objectively determinable, that is, it should be legally enforceable via ownership of the majority of the voting rights.

Unfortunately, in many cases this exposure draft would require consolidation in the absence of objective, verifiable evidence of the ability to control. Instead, it would require ongoing evaluations of the presence of control based on presumptions and indicators. We cannot agree with this highly subjective approach.

This proposed method for determining consolidation policy, with its potential for confusing consolidation and then deconsolidation of entities as evaluations and presumptions change, is simply too subjective, given the immense amount of financial amounts involved. Whether or not one entity is controlled by another should be evaluated based on clear and determinable evidence, not "perceptions of control" which can vary from person to person and from time to time. For that objectivity to be present, control must be legally enforceable as evidenced either by current ownership of the majority of the voting rights or the unilateral ability to obtain a majority voting interest without significant cost. The exposure draft moves beyond this clear concept of control by providing for consolidation based on presumptions of effective control such as ownership of

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a large minority voting interest, the ability to dominate recent board elections, and charter or bylaw provisions installed by the creator of an entity to primarily obtain the benefits of that entity. We are skeptical these conditions can be objectively evaluated as to the presence or lack of control. And, even then, the conclusions will be subject to change.

For example, in today's contentious and litigious environment, the ownership of a large minority interest such as 40%, does not ensure continuing control. Other ownership interests can combine and cooperate when circumstances warrant. A current condition of dominance over board elections based on low voter participation can similarly change, as other interests increase participation in response to internal or external events. And, attempting to accurately measure the economic benefits that corporate bylaws and charters might impart to the "creator" of a commercial corporation, versus the other corporate stockholders, is probably not possible. Furthermore, stockholders who invest funds proportionate to their ownership generally will ensure that they receive commensurate benefits.

The discussion of presumptions and indicators of effective control in this document should be significantly altered. Other than the unilateral ability to obtain a majority voting interest without significant cash outlay, the presumptions and indicators of effective control should be eliminated from the discussion of consolidation policy for commercial corporations.

If certain of the presumptions or indicators of control are appropriate for notfor-profit organizations or nonsubstantive special-purpose entities, they should be directly focused on those special cases, not on conventional commercial corporations.

Additionally, the exposure draft would significantly change the accounting for minority or noncontrolling interests. Specifically, in the acquisition of a subsidiary, a proportionate share of the total fair value of the subsidiary would be allocated to the minority interest. This is at variance with current practice, which is to allocate book value to the minority interest. The exposure draft does not adequately justify why this long-standing accounting procedure should be overturned with the result of artificially inflating the carrying amounts of acquisitions beyond their actual cost.

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In summary, we do not believe there is substantial support among the Board's constituents for introducing a large amount of subjectivity into the overall consolidation process. If the Board believes there are specific situations in the not-for-profit or special-purpose entity areas that require change, they should be addressed individually.

We appreciate your review of our comments. We will be glad to discuss them further, as appropriate.

Sincerely.

Marvin M. Lane, Jr.

Vice President and Corporate Controller

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