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Heller International

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Director of Research and Technical Activities
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Financial Accounting Standards Board
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This letter sets forth our comments on the Financial Accounting Standards Board's (the Board) October 16, 1995; Proposed Statement of Financial Accounting Standards related to Consolidated Financial Statements: Policy and Procedures (ED).

We agree that the current accounting policies for consolidation should be revised. Power to use or direct the use of the individual assets of an entity in essentially the same ways as the company is able to use its own assets should properly drive the requirement to consolidate the results of operations and financial position of an acquired entity in most cases. Other factors besides the power to use assets should be taken into consideration when requiring entities to consolidate companies in which they hold a controlling interest. Several complex issues can arise in the application of this concept when the investor has obtained this power with the intention of disposing of the subsidiary within a short period of time. In this regard, we disagree with the Board's definition of temporary control, and as such, submit our response to the exposure draft for your consideration.

Financial statements should provide information to the reader that is beneficial to them in gaining a full understanding of the financial position and results of operations of the reporting entity. It is essential that the financial statements provide relevant, reliable, and comparable information which will improve their usefulness in assessing an entity's performance and making an investment, credit, or similar decision. Information about an entity is more useful if it can be compared with similar information about other entities or about the same entity in other periods.

The purpose of consolidating a subsidiary under control of the parent, as addressed in this exposure draft, is to improve the comparability of information provided by such consolidated financial statements. The exposure draft acknowledged that consolidation generally provides more meaningful information, yet other forms of reporting may be more useful if consolidation would be short-lived because control is temporary.

Conceptually, we agree with the position that other forms of reporting are more useful and provide more relevant information to the reader if consolidation of an entity would be short lived. This is in concert with providing relevant, reliable and comparable information to the reader of the financial statements. The exposure draft considers control temporary if the parent is obligated to relinquish control within one year or management has decided to dispose of the newly acquired subsidiary and has a plan for and a reasonable expectation of disposition within one year. We believe that consolidating a subsidiary where management will hold an investment for greater than one year does not automatically provide relevant information to the reader of the financial statements. Requiring entities to consolidate companies where management's intent is to dispose of the investment within a period of several years will distort the comparability of financial information between periods. As investor's acquire and dispose of investments of varying sizes and results, the comparability of the investor's financial statements from period to period would be distorted if such investments were consolidated. This is especially true for companies that hold a pool of investments for which control can be asserted.

Control, legal or effective, does not acknowledge the difference between an entity that has the intention to act as an investor versus an entity whose intent is to act in the capacity of owner-operator. Entities often make an investment in a company for the purpose of benefiting from their operating cash flows or appreciation in value with the intention of disposing of the investment in a period of two to five years. Management does not participate in policy making decisions nor the day-to-day operations. Therefore, we feel it is not appropriate in these circumstances to consolidate the company as would be required under the current definition of temporary control.

We feel that the definition of temporary control is too restrictive in that it is based upon a time frame without considering management's purpose for making the investment, their level of involvement in the company's operations, or their desired holding period for investments in a company which they have the ability to control. We feel it would be more appropriate to consolidate entities in which management is active in the operations of the subsidiary and

functions as an owner-operator. The usefulness of financial information on a consolidated basis decreases considerably where the entity functions as an investor with the intention of disposing of those investments in less than five years.

We agree that the notion of control embodies a general notion of benefit-benefit that is derived from the power to direct the use of the individual assets rather than from ownership of an equity interest. However, investments which management has entered into without the intent to function as the owner-operator of the company, and has decided to dispose of, although such disposition is expected to occur beyond one year, should not be consolidated into the financial statements of the parent for the reason discussed above. We believe it is more appropriate to disclose the relationship, including a description of the acquired interest, in the notes to the financial statements. This would provide full disclosure to the reader of the financial statements and permit comparability of information among reporting periods.

We would be pleased to discuss these comments in further detail with the Board, should there be any matters requiring clarification.

Very truly yours,

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