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Mr. Timothy Lucas
Director of Research and Technical Activities
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Letter of Comment No: 57
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RE: File Reference No. 154-D

Dear Mr. Lucas:

SBC Communications, Inc. (SBC) respectfully submits comments on the Exposure Draft (ED) of the Financial Accounting Standards Board's Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Policy and Procedures."

SBC is the parent organization of several subsidiaries involved in providing telecommunications services to customers in the United States and around the world. While the proposed standard would have minimal, if any, immediate impact on SBC, we have concerns regarding the broadness of the proposed consolidation policy and the lack of comparability and consistency that may result from its application.

Additionally, sophisticated investors are aware of an entity's significant investments and can look to separate financial reports of an affiliated entity to obtain desired information about the affiliate. Further, for those significant investments accounted for under the equity method of accounting, separate disclosures summarizing assets, liabilities and results of operations of the affiliate are already required to be included in the investors financial reports. In this sense, the proposed policy would add little, if any, benefit to information that is readily available.

The proposed standard looks at "control" as the sole factor for determining whether consolidated financial statements should be prepared. By relying on control, an entity that met the definition of control even though it only held a very small equity ownership in another entity would be required to consolidate the entire operations of its affiliate in the financial statements. In contrast, an entity that held a majority equity interest but did not meet the definition of control would not prepare consolidated financial statements.

The concept of control, specifically "effective control" as it is defined by the proposed standard, is very broad, subjective and difficult to assess. Because of that, similar situations at different entities could result in different judgments, therefore disrupting the comparability of two otherwise comparable sets of financial statements. Further, the ED states that "control" enables a parent to use or direct the use of the assets of another entity and even if the parent elects not to exercise that control, it is still considered a controlling entity. Suppose that Company A, which owns 35% of Company B, meets the definition of control over Company B but never exerts its control to change any operational or management direction of its affiliate. Alternately, suppose that Company C owns 35% of Company D, however it does not meet the definition of control over Company D. These two situations are effectively the same, yet the first situation will result in consolidated financial statements while the latter will not. How does one reconcile this scenario with the "substance vs. form" premise that underlies generally accepted accounting principles?

Mr. Timothy Lucas
Page 2
January 12, 1996

The ED listed several circumstances where effective control could exist even though a majority voting interest is not owned. One of those circumstances pointing to effective control was an entity's ability to dominate the process of nominating and electing Directors. An example described a situation where Company A held less than a 50% interest but is still able to cast the majority of votes because not all eligible votes were cast. Another example describes a similar situation where Company A, though it does not individually own the majority of the votes cast, has the ability to obtain proxies from other shareholders which allow them to obtain the necessary majority of the votes cast. In both of these situations, effective control is presumed and the ED would require preparation of consolidated financial statements. Although an entity is able to ensure the election of a particular director or set of directors, there is no guarantee that the director(s) will always vote in the manner supported by the entity, therefore placing into question whether effective control of an affiliate's assets really exists.

Additionally, business circumstances and relationships change over time. Many of these changes, though they may be outside of the control of a particular company, could result in a discontinuance of previously consolidated financial statements. In the examples above, suppose that in the very next election shareholder interest is particularly high and nearly all eligible votes are cast, or suppose that many of the shareholders who previously tendered their proxies to Company A elect not to do so. In those cases, Company A may have lost its ability to dominate the election process, resulting in a lack of effective control. Even though Company A's ownership percentage in its affiliate did not change, without control it would no longer present consolidated financial statements. In a future election, the situation could reverse itself, and consolidation would again be required. These changes in circumstances, which we view as plausible, may lead to major differences in financial reporting over time. The ED does not adequately address these types of situations.

The ED also states that control of an entity is an exclusionary power (i.e. only one entity can control another). However, in a situation involving two large minority shareholders, and if we assume these shareholders have a relationship or common interest such that they will vote the same way, which is the controlling entity, if any?

Finally, the FASB should acknowledge that judgments regarding effective control may not be made without considering the impact on the parent's financial statements that consolidation would have. In some cases, consolidation may result in an enhancement of the parent's balance sheet or various financial ratios. In other cases, it may be a detriment. Although these impacts are not factors in the determination of control, there may be a tendency to evaluate these factors in a less than objective manner so as to obtain the desired outcome.

We appreciate the opportunity to comment on this proposed Statement of Financial Accounting Standards.

Yours truly,



Richard G. Lindner