



May 24, 1999

Director of Research and Technical Activities
File Reference No. 194-B
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 52
File Reference: 1082-194R
Date Received: 5/26/99

Dear Sir:

The American Gas Association (AGA) is pleased to submit its comments concerning the Exposure Draft of Proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Purpose and Policy". The AGA represents 189 local natural gas utilities that deliver natural gas to almost 60 million homes and businesses in all 50 states. Additionally, the AGA provides services to member natural gas pipelines, marketers, gatherers, international gas companies and a variety of industry associates.

Definition of Control and Its Implementation Guidance

The AGA believes that majority ownership of the legal right to economic benefits from a controlled entity is a reasonable and practical definition that can be used to determine when an entity should be consolidated. The proposed definition of control accurately describes some of the characteristics of legal control, however, there is considerable subjectivity in determining whether or not a parent company has the ability to increase the benefits and limit the losses from the ongoing activities of a subsidiary. This may result in inconsistent application by financial statement preparers and financial statements becoming less comparable to shareholders and creditors. The rebuttal presumptions of control provided in paragraphs 18 through 21 will assist in reducing the number of circumstances where judgement need be applied. However, if the rebuttal presumptions of control do not exist, applying the proposed definition of control will be a time consuming and largely academic exercise.

The rebuttal presumptions of control provided in paragraph 18(a) and paragraphs 20 and 21 are reasonable, sufficiently clear and assist in the application of the proposed Statement because they are based on majority ownership criteria. The rebuttal presumptions of control in paragraphs 18(b) and 18(c) are not in and of themselves sufficient to assume control exists. In these situations it is not clear that a parent company has the ability to increase the benefits and limit the losses from ongoing activities of the subsidiary and further evidence should be sought to prove control exists. Again, this will be a largely subjective exercise.

The concept of effective control by default of having a large majority interest when other interests are fragmented into smaller blocks is illusionary. Control in fact resides with the other interests. By voting consistently on an issue whether organized or not, the majority in fact has the "ability" to make a decision that differs from the large minority voting interest at any time, regardless of typical voting patterns. Therefore, AGA recommends that paragraph 18, situation b, be deleted.

In paragraph 18, situation c - 2 addresses the ability to acquire control through converting securities or exercising other rights. To have that ability, the entity would also need to have access to enough cash to exercise other rights. An entity with a solvency problem may not, in fact, be able to exercise other rights to assume control. The AGA suggests adding, "access to sufficient cash for the exercise of other rights" as a criteria for demonstrating ability to control.

In AGA's opinion, the last sentence of paragraph 17, "The absence of one of those specific situations does not lead to a presumption that control is not present." appears to be biased toward control. The AGA believes that the FASB would achieve greater neutrality if the sentence were deleted.

Transition and Implications for Interim Reporting

The AGA agrees with the requirement for restatement of comparative financial statements including interim periods. However, the AGA suggests that it be explicitly stated in the transition guidance that restatement occur only if there is a material impact.

Temporary Control of a New Subsidiary

The AGA generally agrees with the proposed provisions regarding temporary control of a new subsidiary. The provisions could be refined if other objective criteria are added that indicate situations under which control is temporary.

The AGA appreciates the opportunity to contribute to the standard-setting process and hopes that its views will be useful to you in your deliberations.

Very truly yours,



Stephen J. Curran
Chairman
AGA Accounting Advisory Council