



May 24, 1999

Director of Research and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No:
File Reference: 1082-194R
Date Received: 6/8/99

Re:

Exposure Draft (Revised) Consolidated Financial Statements:

Purpose and Policy File Reference: 194-B

Dear Sir:

FPL Group, Inc. (the Company) is pleased to respond to the Revised Exposure Draft (ED), Consolidated Financial Statements: Purpose and Policy. The Company, a public utility holding company, is the parent of Florida Power & Light Company, one of the largest investor-owned utilities in the nation, serving about half of the population of Florida. The Company also owns and operates unregulated independent power facilities throughout the country.

We have commented on earlier proposals at various stages of the consolidation policy project. With regard to this ED we continue to be concerned with several aspect of control. We continue to believe the consolidated financial statements should be prepared primarily for the benefit of stockholders and creditors of the parent company.

## **Consolidation Policy**

Again we express our view that control and level of ownership are two separate and necessary conditions for meaningful consolidation of investee financial statements. This same conclusion was reached by a majority of the respondents to the FASB's 1991 Discussion Memorandum. We believe control alone is not sufficient to justify consolidation. The controlling entity must also have the right to enjoy a substantial amount of the benefits derived from the control of the assets of another entity. Reporting revenues, expenses, assets and liabilities that will not directly affect the parent company owners and creditors lacks relevance. We believe consolidation of an investee's financial statement is appropriate when there is meaningful risk and reward to the parent's stockholders as evidenced by both their participation in significant residual benefits and the parent company's power to direct the subsidiary's operations and financial activities.

## **Rebuttable Presumptions of Control**

The rebuttable presumptions of control in paragraphs 18 and 21 have left us with several concerns related to their application. Many of our concerns discussed below were expressed in our January 12, 1996 comment letter regarding the original Exposure Draft.

We are troubled that the facts and circumstances described in the rebuttable presumptions of control could lead to the consolidation of subsidiaries in which an entity has taken no action or attempted to direct the policies and management of another entity. The consolidation of assets, liabilities, revenues and expenses of such an investee would diminish the representational faithfulness and usefulness of the information provided by those financial statements. Six specific concerns are as follows:

Transitory Nature of Control – If consolidation can be based simply on the presumption of control as indicated by nominating directors that are ultimately elected (paragraphs 18(a) and 82-85), control could easily shift to another entity or coalition in subsequent elections, and back again. The subsidiary's financial statements would be consolidated in one period but not another. In such circumstances, the usefulness and credibility of those financial statements would be diminished.

Control Based on Inaction of Others – Paragraph 18(b) indicates a presumption of control in the case of a large minority voting interest and no other significant organized interest. We are concerned that this provision suggests a level of control over the actions of others than may not exist. We believe that until the minority actually attempts to change the composition or policies of the investee's governing board, there is no conclusive evidence available to demonstrate that the existing board will adhere to or accept the changes. We see the potential for control, and therefore consolidation, shifting between parties as issues rise or fall, stimulating others to take action. The result would be similar to that noted above, inconsistent reporting, undermining investor confidence.

Control Based on Convertible Securities or Other Rights – Paragraph 18(c)(2) suggests that it is appropriate to presume control if an investor has a currently exercisable block of convertible securities or other rights that are sufficient to obtain a majority voting interest in a company if the benefit from converting the securities or exercising the rights exceed the cost. We believe that absent actions on the part of the holder of the convertible securities, there is not sufficient evidence available to demonstrate control. Although options, warrants and other rights may be acquired for a nominal investment, they require a significant investment to exercise. We believe that until the holder takes action to convert the securities or exercise the option, there is no evidence or basis for presuming control. Consolidation based on these circumstances greatly undermines the usefulness of the financial statements.

Consolidation with Insubstantial Residual Ownership – Consolidation by a sole general partner of a limited partnership may result in confusing financial reporting, particularly in cases of insubstantial ownership. It is not uncommon for a sole general partner to hold a one percent (or smaller) ownership interest in a project. In many instances, the general partner has made a nominal investment in the partnership and serves as manage of the partnership. Reporting all partnership revenues and expenses followed by removal of 99% (or essentially all) of partnership earnings does little to enhance the value of the income statement. Further, the presumption of control, once again, depends on the assumed inaction of the limited partners in situations in which their ability to remove the general partner is uncertain and untested. The nature of the general partner's investment and the related risks and potential rewards can be more appropriately addressed through disclosure.

Implied Support – We support the accounting indicated in paragraph 19(i) of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, relating to the suspension of loss recognition when the investor's share of losses has reduced the investment to zero (absent any funding commitment). We are concerned that a less than majority owner deemed to have control of an entity, and therefore required to present consolidated financial statements, could imply to the parent company investors a greater degree of support of that investee than really exists. Also, should the entity be unconsolidated if the investment is reduced to zero?

Nature of Control – Paragraph 11 of the ED discusses the exclusionary nature of control. This concept seems inconsistent with the concept of control as it is discussed in paragraph 15. For example, if Entity A delegates its control to Entity B, paragraph 11 indicates that Entity A is still the controlling entity. Wouldn't Entity B now have control? Can control shift to Entity B if rather than delegating control to Entity B, Entity A simply does not vote in the election of directors? Also, does legal control always result in consolidation? Assume, for example, a 51 percent or greater owner with largely investment objectives agrees to a director or management team proposed by another owner that has significant operating expertise. It appears in paragraph 92 that if a minority owner's slate of directors is elected, through whatever means, that minority can be viewed as having control. In such a situation, one entity would have legal control but another entity has effective control. Who should consolidate?

## Transition and Implications for Interim Reporting

Based upon the significant changes in the definition of control from current practice, restatement of comparative financial statements for all previous periods is necessary in order for the users of the financial statements to make meaningful comparisons. However, since the definition of control is expected to significantly change the comparison of entities currently included in consolidated financial statements, we recommend the Board consider not requiring presentation of comparative prior year information for interim periods in the year of adoption.

We thank you for the opportunity to respond to this ED. Your consideration of our comments is appreciated.

K.M. Davis (Controller and

Chief Accounting Officer