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Corporate Accounting



May 24, 1999

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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: SF File Reference: 1082-194R Date Received: 5/25/99

Dear Sir:

CIGNA Corporation is pleased to comment on the FASB's Exposure Draft entitled Consolidated Financial Statements: Purpose and Policy. Consistent with our prior comments in response to the Preliminary Views issued by the Board in 1994 and the Exposure Draft entitled Consolidated Financial Statements: Policy and Procedures issued in 1996, we agree that there may be diversity in consolidation practice which could make additional guidance useful. However, we continue to be concerned with several substantive issues, described below.

#### Consolidation Criteria and Definition of Control

Although we recognize that the definition of control was modified from the 1996 Exposure Draft to incorporate an entity's ability to increase its benefits or limit its losses, we do not consider this revision sufficient. We disagree with the requirement to consolidate based on a definition of control that does not consider the right to a minimum level of economic benefits of an investee because commingling assets in which a parent's shareholders have a minimum beneficial interest with assets in which they do not will reduce the usefulness of financial information and distort widely used financial and operating ratios. We continue to recommend that the definition of control be expanded to include some minimum level of rights to economic benefits. Such expanded criteria would achieve the Board's stated objective to define control of an entity in order to provide consolidated financial statements with a fair presentation of the resources available to the reporting entity and its shareholders.

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# General Partners in Limited Partnerships:

Consistent with the Preliminary Views and the previous Exposure Draft, the current Exposure Draft may require a sole general partner with as little as a 1% ownership interest in a limited partnership to consolidate the partnership. We continue to strongly disagree with this view and believe that it is inconsistent to require consolidation by a sole general partner with minimal investment, but not by a trustee or mutual fund manager, when in fact the economic circumstances of all three situations can be substantially the same. Trustees and asset managers often receive fees based on some measure of fund performance, which is similar to a sole general partner's 1% partnership interest. Our experience is that a general partner cannot use partnership assets to its disproportionate advantage, but that a sole general partner acts in a fiduciary capacity and is subject to legal action if its actions are not in its limited partners' interests (again similar to a trustee or fund manager). Accordingly, a general partner would be precluded from structuring transactions to benefit itself and consolidation should not result.

We continue to believe that consolidation of a partnership by a sole general partner with as little as a 1% equity interest is inconsistent with Concepts Statement 1, which states that financial reporting should provide information about an enterprise's economic resources, obligations, and equity. We do not believe, as stated above, that relevant information is reported to shareholders when net assets that cannot be used to their benefit are reported in consolidated financial statements, and instead, believe that this results in misleading financial statements and distorted financial and operating ratios. This is a reason for excluding trusts and mutual funds from the financial statements of their managers, and the concept can be equally appropriate for the sole general partner of a limited partnership.

In addition, we do not believe that the "current ability" of the limited partners to remove the general partner should be the criterion for determining control. Rather, we believe that a more appropriate criterion is the contractual rights of the limited partners. In describing the "current ability" of the limited partners the Board presumes that the limited partners will not act together due to their number or geographic dispersion. If a general partner were not acting in accordance with its fiduciary responsibility, the limited partners would certainly take action to protect their partnership interests, regardless of their number and geographical dispersion, given telecommunications tools currently available.

Again, we strongly encourage the Board to include a minimum ownership percentage as a criterion for control in any final standard. If the Board does not include such a provision, the discussion of evaluating a sole general partnership should be expanded to recognize, and give appropriate weight to, the fiduciary responsibilities of such a general partner and the capabilities of the limited partners to limit the control of the general partner through contractual or legal provisions. Limited partners' capabilities might include the right to sue as well as rights to force the removal of a sole general partner or liquidation of the partnership.

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# **Temporary Control:**

Paragraphs 24 and 25 provide that when management has committed to a plan to relinquish control within a year, the investment should be accounted for at the lower of cost or market. We believe that this provision presumes that control will be relinquished through disposal. In the case of a newly organized mutual fund that an investment manager has initially funded and expects to maintain as an investment for the long term, control is typically relinquished through additional, substantive investment by third parties. We believe that such an investment should be accounted for using existing applicable guidance for noncontrolling interests, such as the equity method or under SFAS 115 as an available-for-sale or trading security. We recommend that the proposal be changed to reflect that a loss of control may not result from a sales transaction and that interim accounting should be based on the expected ultimate level of influence.

## Separate Accounts:

We believe that an insurance company's management of separate account assets is similar in many respects to that of a fund or trust manager. However, since separate account assets and liabilities are included in the insurer's financial statements under SFAS 60, consolidation policy is not specifically applicable to separate accounts. In addition, as you know, the Insurance Companies Committee of the American Institute of Certified Public Accountants is considering the appropriate presentation of separate accounts within the financial statements of the insurer. Given that project, we recommend that the background of this standard clarify that separate accounts are not subject to its provisions.

### Effective Date and Transition:

We strongly urge the Board to reconsider the proposed effective date for periods beginning after December 15, 1999. Although most companies, including CIGNA, will have addressed their critical Year 2000 issues prior to the expected issuance of the final standard, it is impossible to predict the overall effect of the turn of the century on the Board's constituency. Many companies will spend the last six months of 1999 testing the effective operation of system interfaces with critical third parties such as customers, financial institutions, vendors and third party administrators. In addition, many companies are also building and testing contingency plans for a multitude of internal and external circumstances that could negatively affect operations at and directly after January 1, 2000. For these reasons, many companies are establishing moratoriums on any systems changes in the fourth quarter of 1999 and first quarter of 2000. We do not believe that the Board can redeliberate these important issues in order to finalize a new standard that companies can evaluate and ready for implementation with necessary changes to consolidation systems before the fourth quarter of 1999. We believe the restatement provisions of the proposal will make any implementation work nearly impossible in the fourth quarter of 1999. A Board decision to delay the effective date of a final standard on consolidation policy to annual periods beginning after June 15, 2000 would be consistent with moratoriums on changes by other regulatory agencies such as the Securities and Exchange Commission and the National Association of Insurance Commissioners.

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If you have any questions, or would like to discuss these comments further, please contact Nancy Ruffino at 860-726-4632 or me.

Sincerely,

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