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Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: /
File Reference: FSP46RB

RE: Proposed FSP FIN 46(R)-b

Dear Sirs:

The paragraphs following the example in the proposed FSP FIN 46(R)-b should be deleted because:

1. An implicit variable interest should not be considered due to the following:
 - a. An implicit (fairly to be understood, though not expressed) guarantee is too vague and cannot be measured.
 - b. There will likely be too many differing opinions as to when an implicit guarantee exists.
 - c. It can be argued that whenever a person owns several entities he will follow the prudent business philosophy of looking after all of his businesses as a whole regardless of what entities hold how much of his assets and liabilities. This common sense approach to his business can be considered an implicit guarantee because he will do what he can to help all of his business entities and himself and this should not be the case.
 - d. When a person owns several entities which he controls, he can change the written guarantees between his entities as he desires in many cases. Thus, written guarantees between his entities are worth only what he desires them to be at any time.
2. In the example in FSP FIN 46(R)-b the conclusion is that because the lease contains no explicit guarantees it is therefore not considered a variable interest. So what if the lease contained guarantees of the residual value of the real estate? If the owner of the entities desired to modify or eliminate the guarantees in the lease or any other part of the lease, the lease would inevitably be rewritten or ignored. Thus, the supposedly written guarantees are not worth any more than what the owner desires them to be worth.
3. It is noted that a guarantee of debt by parties other than the owners (that is, by an owner's other entity) does not protect the owner from losses. The guarantee of debt by the owner's other entity requires the guarantor to step into the shoes of the creditor in the event the entity defaults on the loan. The guarantee is designed to protect the creditor rather than the owner. It is noted that a guarantee of the entity's debt by its owner ordinarily increases the owner's obligation to absorb possible losses rather than to protect the owner from losses. Thus, guarantees between an owner's entities should not be construed as an event that causes a variable interest.

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4. Most owners consider each of their entities as a separate group of assets and liabilities and desire to see how that group of assets and liabilities performed. Many business owners have separate lending institutions for their various entities and thus do not desire to give the same financial report to all lenders. The lenders desire to analyze the financial statements and footnotes of the entity they are lending to rather than receive a combined financial statement which they will have a hard time understanding.
5. As an entity improves financially, owners desire to reduce or eliminate the guarantees that have been given to lenders. The request for reduced or eliminated guarantees will predictably be ignored by the lenders unless they can analyze the financial entity to which they are lending in a non combined financial statement with non combined footnotes.
6. There are bonuses and other employee incentives that are derived from the results of the independent accountant's financial statements which would be difficult for the client's staff to understand if various entities were combined in the financial statements. Also, there are many cases where the client does not want his employees to see the financial statements of his other entities.
7. We are requested to submit financial statements to parties who evaluate the entities for estate, gift or other reasons and the submission of a combined financial statement would not serve the purpose.
8. The Internal Revenue Service requires that the prior five years of financial statements of the entity whose equity is gifted be attached to gift tax returns. We could not comply with Internal Revenue Service regulations if we prepared combined financial statements.
9. Please think about the legal aspects of presenting combined financial statements to someone who has an interest in granting credit to only one of the entities.
10. The underlying principal of accounting has been to communicate to the reader in a clear and understandable manner the important financial information of the entity he desires to analyze. I do not think combined financial statements and combined footnotes will accomplish this.

Please write a FASB staff position that will prevent nonpublic entities from becoming variable interest entities in the above circumstances. To not write a FASB staff position that prevents nonpublic entities to be combined in financial statements will periodically lead to more confusion in our industry and result in law suits.

Thank you for your kind assistance in rewriting and/or delaying the effective date for nonpublic entities regarding FASB 46.

Very truly yours,

CHARLES H. MCCOY, JR., INC.



Charles H. McCoy, Jr., President