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Letter of Comment No: 104  
File Reference: 1082-300  
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**Rajeev Bhalla**  
Vice President and Controller

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TA & I Director  
Financial Accounting Standards Board  
401 Merritt 7  
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Norwalk, CT 06856-5116

Sent via email to [director@fasb.org](mailto:director@fasb.org), File Reference No. 1082-300

Re: File Reference No. 1082-300  
Proposed Interpretation  
Consolidation of Variable Interest Entities—a modification of FASB Interpretation 46

Lockheed Martin Corporation welcomes the opportunity to provide comments on the Exposure Draft (ED) modifying Financial Interpretation (FIN) 46. Lockheed Martin is a publicly traded corporation principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. In 2002, we reported sales of \$26.6 billion.

While we appreciate the Board's continuing efforts to clarify FIN 46, we believe the necessity of issuing numerous FASB Staff Positions (FSPs) and now a modification of FIN 46 itself, all within one year of the original pronouncement, illustrates the peril of issuing standards before they have been fully developed and deliberately considered. We are concerned that the rush to issue this modification while holding to a year-end 2003 effective date will make this bad situation worse.

If a goal of issuing a standard is to inspire confidence in financial reporting, the standard should be clearly understood, ideally by the financial statement user community, but certainly at least by the accounting profession. We are concerned that there remains much uncertainty in the profession over the application of the new "variable interest entity" model to common, real-

world situations, such that informed, good-faith efforts to follow the new model may not be successful.

The inconsistency between the concept of a “control-based” consolidation model (the basis for most of the accounting literature and government regulation on the subject, including rules pursuant to the Sarbanes-Oxley Act of 2002), and the “exposure-based” consolidation model promoted in FIN 46, is fundamental and requires careful reconciliation. We do not believe that FIN 46 or its proposed modification accomplish this. The real possibility of being required to consolidate an entity when the consolidator lacks the basic governing right of obtaining financial data from the entity, though addressed from a practical standpoint in the ED, still poses a conceptual quandary. A registrant’s reporting on and certifying to internal control over its financial reporting, when lacking basic governing rights over an element included in the registrant’s financial statements, is further problematic. Reporting an “exception” to the certification, where the exception is due not to a failure of corporate governance or management control but rather in recognition that a conventional control relationship doesn’t exist, would not reflect an improvement in financial reporting in our view.

We understand the Board may amend the ED as a result of comments received during the exposure period. We urge the Board to make any such amendments available for public comment and review. The final standard, when issued, should be clear and comprehensive enough to stand on its own without requiring a continuing stream of further interpretations.

Finally, we strongly encourage the Board to further defer the required implementation date of FIN 46 until a more thorough final modification has been enacted.

Thank you for considering our concerns during the Board’s deliberations.

Sincerely,

/s/ Rajeev Bhalla  
Vice President and Controller