

December 1, 2003

Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
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Re: File Reference No. 1082-300

The undersigned wishes to comment on behalf of The Boeing Company (the "Company") on the Proposed Interpretation, *Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46*. We applaud the FASB's efforts to provide more specific accounting guidance related to variable interest entities ("VIE"); however, we wish to convey certain comments on the Proposed Interpretation, as set forth herein. Our comments pertain to the following general topics:

- Evaluation of whether an entity is a VIE – specifically, whether the equity invested in the entity is sufficient
- Identification of events that trigger reconsideration of whether an entity is a VIE and which enterprise, if any, is the primary beneficiary
- Determination of expected losses and expected residual returns
- Identification of de facto agents and de facto principals, and related assessment of whose activities are most closely associated with the VIE
- Examples of variable interests

Evaluation of whether an entity is a VIE – specifically, whether the equity invested in the entity is sufficient

To determine whether an entity is a VIE, the Proposed Interpretation requires an evaluation of whether the entity's equity investment at risk is sufficient to fund its operations. The Proposed Interpretation clarifies that qualitative assessments should be considered before quantitative assessments in evaluating whether an entity is a VIE. However, the Proposed Interpretation addresses the quantitative assessments first (in paragraph 5a), and the qualitative assessments later (in paragraph 9A). We recommend that the guidance in paragraph 9A regarding qualitative assessments be incorporated into paragraph 5a, so that the requirements of FIN 46 are set forth in the same order that assessments are to be made.

Also, it appears that qualitative considerations are incorporated into both qualitative and quantitative assessments mentioned above. We believe additional guidance is necessary to clarify what is meant by the term "qualitative considerations." We suggest providing specific examples of qualitative considerations and explaining how those qualitative considerations impact the evaluation of whether an entity is a VIE.

Additionally, the Proposed Interpretation is silent with respect to whether the equity investment being evaluated for sufficiency should be measured at its carrying value or its fair value. We believe the basis of measurement should be clarified.

Identification of events that trigger reconsideration of whether an entity is a VIE and which enterprise, if any, is the primary beneficiary

The Proposed Interpretation describes in paragraphs 7 and 15, several situations requiring reconsideration of whether an entity is a VIE and which enterprise, if any, is the primary beneficiary, respectively. The proposal requires reconsideration of whether an entity is a VIE and which enterprise is the primary beneficiary if the entity's governing documents change significantly. We believe additional guidance is necessary to clarify what is meant by significant changes in an entity's governing documents. We suggest providing examples to clearly illustrate specific changes in an entity's governing documents that would require reconsideration of whether the entity is a VIE or reconsideration of which enterprise is the primary beneficiary.

The Proposed Interpretation also requires reconsideration of whether an entity is a VIE if the entity undertakes additional activities or acquires additional assets that were not anticipated at the inception of an entity. We believe additional guidance is necessary to clarify what is meant by additional activities. We suggest providing examples to clearly illustrate the types of additional activities that an entity may undertake that would require reconsideration of whether the entity is a VIE.

Additionally, the Proposed Interpretation states that the renegotiation of an entity's debts or other contracts "caused by the incurrence of operating losses" should not cause reconsideration of whether the entity is a VIE, unless it modifies the characteristics of the equity investment at risk or the level of subordinated financial support. We believe inclusion of the phrase "caused by the incurrence of operating losses" is unnecessary because no circumstance or event should trigger reconsideration, unless it results in the modification of the equity investment at risk.

We understand that when evaluating the sufficiency of equity at risk, only the equity outstanding at the time of the analysis can be considered. We believe that receipt of additional capital contributions in the future from either existing or new investors changes the characteristics of an entity's equity investment at risk. Therefore, we believe that the determination of whether an entity is a VIE should be reconsidered upon receipt of additional capital contributions.

Determination of expected losses and expected residual returns

Paragraph 8 of the Proposed Interpretation defines an entity's expected losses and expected residual returns to include, among other things, "the expected variability in the entity's long-term return to variable interests." To be consistent with the terminology used in Appendix A, which focuses on "cash flows", we suggest defining an entity's expected losses and expected residual returns to include, among other things, "the expected variability in the entity's estimated *cash flows* to variable interest holders."

Identification of de facto agents and de facto principals, and related assessment of whose activities are most closely associated with the VIE

The Proposed Interpretation requires a variable interest holder to consider the variable interests of its related parties, including de facto agents and de facto principals, as its own when determining the primary beneficiary of the VIE. If such related party relationships exist, and the related party group has the majority exposure to expected losses or expected residual returns of the VIE, then the related party with activities that are most closely associated with the VIE is the primary beneficiary.

The Proposed Interpretation states that the right of prior approval creates a de facto agency relationship if it “could constrain the party’s ability to manage the economic risks or realize the economic rewards from its interest in a variable interest entity.” We believe it is unclear what is meant by “could constrain the party’s ability to manage the economic risks or realize the economic rewards from its interest in a variable interest entity.” We suggest revising this guidance to reflect that the right of prior approval results in a de facto agency relationship only if that right significantly constrains the party’s ability to sell, transfer, or encumber its interests in the entity.

We believe it is unclear whether a de facto agency relationship results in a related party relationship for both the variable interest holder who has the right to restrict the sale, transfer or encumbering of the interests of another variable interest holder, and the variable interest holder whose rights have been restricted. We believe the variable interest holder with the restriction rights is the one who could effectively protect or expand its interests in the VIE, and hence benefit from its restriction rights. However, the restricted variable interest holder is not protected in this way. An analogy can be drawn from the requirements in SFAS No. 140, *Accounting for Transfers of Servicing of Financial Assets and Extinguishments of Liabilities*, which indicates if a transferor maintains restriction rights on the transferee’s interest in the transferred assets, sale accounting is precluded because the transferor is deemed to maintain control over the transferred assets. Therefore, we believe that only the variable interest holder with restriction rights (which indicates “control”) should be required to consider the variable interests of the restricted variable interest holder as its own when determining the primary beneficiary of the VIE. We recommend that the guidance be revised accordingly.

The concept of de facto principal is not clearly defined in the Proposed Interpretation or existing authoritative literature. Therefore, we believe additional guidance should be provided to clearly illustrate when an entity would be considered a de facto principal of a variable interest holder.

We believe additional guidance is required to clarify what is meant by activities that are most closely associated with a VIE. To assist preparers and auditors, we suggest explaining whether the following attributes should be considered when evaluating whose activities are most closely associated with a VIE:

- the variable interest holder’s exposure to expected losses or expected gains of the VIE,
- the amount and frequency of business that the variable interest holder does as either a customer or vendor of the VIE,
- the variable interest holder’s influence over the VIE’s customers or market,
- whether the variable interest holder has operating control over the VIE, and

- whether the regulatory environment in which the variable interest holder operates is the same as that of the VIE.

Examples of variable interests

The original Interpretation included an Appendix B that described examples of different types of variable interests in entities subject to the Interpretation. The Proposed Interpretation deletes Appendix B. We believe that examples of variable interests should be provided to assist preparers and auditors in applying the Proposed Interpretation.

We appreciate the opportunity to comment on these topics and your attention to our comments.

Sincerely,

James A. Bell
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The Boeing Company