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Federated

WORLD-CLASS INVESTMENT MANAGER

December 1, 2003

Director, TA&I-File Reference No. 1082-300
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

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

Dear Director:

We appreciate the opportunity to comment on proposed FASB Interpretation "Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46" (Proposed Interpretation). We support the FASB's efforts to provide clarifying guidance relating to the complex provisions of FASB Interpretation No. 46 (FIN 46); however, we continue to have grave concerns about the proposed conclusions reached by the Board and their impact to Federated and investment advisors in general for the reasons set forth below as well as those articulated in previous letters provided by Federated to the FASB on this topic.

Federated is one of the largest investment management companies in the United States with over \$201 billion in managed assets as of November 21, 2003. The majority of Federated's revenue is derived from advising and administering Federated mutual funds, separately managed accounts and other Federated-sponsored products, in both domestic and international markets.

Federated is the investment manager of three collateralized bond obligations (CBOs), all of which meet the definition of a variable interest entity (VIE) pursuant to FIN 46's provisions after considering their corporate governance. The CBOs are investment vehicles created for the sole purpose of issuing collateralized debt instruments pursuant to an indenture. The assets under management in the CBOs represent the collateral for the CBO notes and were purchased with the proceeds collected by the CBO from the issuance of debt. Federated's obligation to the CBOs is strictly limited to managing the collateral for which Federated earns a management fee on a fixed-rate basis.

Scope Exception

Paragraph 3c(h) of the Proposed Interpretation states: "Mutual funds in the form of trusts and trusts of a bank's trust department and similar arrangements that are organized and operated in a manner consistent with customary existing practices are not subject to consolidation according to the requirements of this Interpretation." We interpret this to mean that mutual funds organized in a

foreign country, such as those in Ireland or Germany, that may not qualify as a voting interest entity due to lack of substantive voting rights, but are organized in the customary practices of such foreign country, would be exempt from the Proposed Interpretation. We further interpret this to mean that all registered investment companies and other types of investment companies, regardless of legal form of organization, that are organized in a manner consistent with customary existing practices (Investment Companies) are also within the defined scope exception of paragraph 3c(h) of the Proposed Interpretation.

As mentioned above, Federated advises separately managed accounts for entities such as foundations, corporations, government investment pools, group trusts and pension plans, including multi-employer plans. Because all of these plans are organized in a manner consistent with customary practices, we also interpret these items to be within the defined scope exception of paragraph 3c(h) of the Proposed Interpretation. We urge the staff to expand the wording of the scope exception to include all Investment Companies and separately managed accounts.

Reconsideration Events

Paragraph 10(d) of the Proposed Interpretation states that an example of an event that would require reconsideration would be when, "A variable interest holder that is not the primary beneficiary acquires additional interest in the variable interest entity." We interpret paragraph 10(d) to mean that, in the case of a CBO, any time a note holder were to sell its interest to another note holder, Federated would have to reevaluate whether it were the primary beneficiary of the CBO. As investment manager of the CBO, Federated does not have access to this information and would be unaware of such note holder transactions. We feel that this provision requires unrealistic expectations for entities to track information that may not fall within its access or authority. We believe that this provision should be removed from the final modification.

Effective Date

Finally, we agree with the dissenting board members' positions as described in paragraphs A43 through A46 of the Proposed Interpretation. We understand that the FASB is working to clarify the guidance via the issuances of this Proposed Interpretation and multiple FASB Staff Positions (FSPs). However, several FSPs, including the treatment of fees paid to a decision maker and the impact of kick-out rights, are crucial to many corporations' final determination of potentially consolidatable VIEs. We feel that the clarification in the final FSPs may be provided too late in the year for calendar-year companies to be able to comply with the December 31, 2003 implementation date. Therefore, we strongly recommend that the Board further delay the implementation date to provide a reasonable amount of time for corporations to implement all aspects of the guidance after all of the clarification guidance is finalized.

Please feel free to contact me at 412-288-7712 to discuss these specific concerns at your convenience.

Sincerely,
/s/ Denis McAuley III
Denis McAuley III
Principal Accounting Officer