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October 6, 2003

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed FASB Staff Position No. FIN 46-e, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, for Certain Interests Held by a Public Entity

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed Financial Accounting Standards Board (FASB) Staff Position (FSP) enumerated above (“the proposed FSP”). We appreciate the Board’s willingness to address implementation concerns on a timely basis. We generally support the proposed FSP and believe its issuance will provide much needed additional time for both preparers of financial statements to adopt FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (“FIN 46” or “the Interpretation”) by the scheduled adoption date, and for standard setters to address various implementation and interpretation issues. In addition, we support the Board’s acceleration of the comment period deadline in an effort to avoid public entities from having to delay their earnings releases.

However, as noted in our previous letter to the FASB dated September 15, 2003, we believe that a broader deferral of FIN 46’s effective date is needed. Our conclusion is based not only upon the apparent readiness of the preparer community, but also because of the many implementation issues that we have encountered over the last eight months. We believe some of those issues are critical fundamental concepts in the Interpretation which need to be resolved before FIN 46 can be effectively implemented.

Notwithstanding our thoughts regarding the need for a broad deferral, should the FASB decide to issue only a limited deferral, we have the following comments on the proposed FSP.

Condition 1: The public entity acquired its interests in a variable interest entity or potential variable interest entity before February 1, 2003.

The language in this condition is inconsistent with the original transition guidance of paragraph 27 of FIN 46, which requires that public entities apply the transition provisions of FIN 46 to a variable interest in a VIE that was created before February 1, 2003 (i.e., the Interpretation focuses on the date that the VIE was created rather than the date the variable interest was acquired). If the FASB intended Condition 1 to include all variable interests subject to the transitional provision in paragraph 27 of FIN 46, then Condition 1 should be reworded. As worded, an enterprise would not meet Condition 1 if it acquired any portion of its variable interest on or after February 1, 2003.

We believe Condition 1 in the proposed FSP should be modified so that any variable interest subject to the transition provisions of paragraph 27 of FIN 46 would meet this condition. In any event, the proposed FSP should clarify whether modifications made after February 1, 2003, to variable interests that were initially acquired prior to February 1, 2003, would cause a public entity to be excluded from the scope of the deferral.

Condition 2: The assets of the variable interest entity or potential variable interest entity are predominantly nonfinancial.

We believe that Condition 2 should be expanded so that entities that have significant cash or other financial assets, but whose activities are predominantly nonfinancial in nature, will be eligible for the proposed deferral. For example, there are many service entities whose assets at a point in time consist mainly of accounts receivable, which will not be eligible for deferral as it is currently worded. We do not believe that the FASB staff intended to preclude such entities from the proposed deferral. We recommend that the FASB staff consider clarifying the second condition as follows; “The primary activities of the variable interest entity or potential variable interest entity do not involve buying, selling, trading or holding financial assets.”

Condition 3: The variable interest entity or potential variable interest entity was not specifically created by or for the public entity to undertake a narrow and well-defined objective.

We believe that footnote 3 should be expanded to include guidance that there are a wide range of substantive operating entities whose activities are limited to a narrow and well-defined business objective (e.g., a joint venture entity established to develop and market a specific technology or a real estate joint venture) that will meet this condition. In addition, the FASB staff may wish to clarify that this condition would typically not be met by entities that were previously evaluated under the guidance in EITF 90-15, *Impact of Nonsubstantive Lessors*,

Residual Value Guarantees, and Other Provisions in Leasing Transactions, EITF 96-21, Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities, or EITF Topic D-14, Transactions involving Special-Purpose Entities.

Condition 4: *The determination of whether the entity is a variable interest entity or whether the public entity is the variable interest entity's primary beneficiary has not been completed as of the issuance of the financial statements for the interim or annual period beginning after June 15, 2003.*

We do not believe this condition is necessary and therefore should be removed. We believe, as written, Condition 4 would not allow an enterprise to take advantage of the proposed deferral when the enterprise has determined it is the primary beneficiary of a variable interest entity, but the enterprise does not have the ability (or the contractual rights) to obtain in a timely manner the financial information or audited financial statements necessary to consolidate the entity. In this connection, we are aware of certain enterprises that have determined that they are the primary beneficiary of a variable interest entity, but will nevertheless be unable to obtain all of the information necessary to prepare financial statements within the current effective dates of the Interpretation because of the need to obtain appraisals of certain of the liabilities of the variable interest entity due to the adoption of Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. We do not believe that these companies should be excluded from the deferral.

Lastly, we believe footnote 1 to the proposed FSP should be removed since the shortened comment period now seems inconsistent with the footnote.

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If you should have any questions regarding our comments, please feel free to contact Doug Tanner at (973) 236-7282 or Thomas Barbieri at (973) 236-7227.

Sincerely,

PricewaterhouseCoopers LLP