

May 23, 2003

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

Re: Comments on certain Proposed Financial Accounting Standards Board (“FASB”) Staff Positions (“FSPs”) relating to the application of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46)

The undersigned wishes to comment on behalf of The Boeing Company (the “Company”) on the certain proposed FSPs issued by the FASB related to the application of FIN 46. We applaud the FASB’s efforts to provide more specific accounting guidance related to variable interest entities (“VIE”), and provide the following comments:

Proposed FSP – Calculation of expected losses under FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.

- We believe the term “expected losses” as used throughout FIN 46 should be synonymous with income statement net losses as determined using U.S. generally accepted accounting principles (“GAAP”).
- We believe this proposed FSP should be modified to include guidance incremental to what is already included in Appendix A, including expanding the scope to incorporate an illustrative example of the unique inputs that factor into the computation of expected residual returns.

Proposed FSP – Treatment of fees paid to decision makers and guarantors in determining expected losses and expected residual returns of a variable interest entity under FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.

- We believe the language in the proposed FSP should be changed from “a” decision maker to “the” decision maker, clarifying the fact that only one of the parties to the VIE can be designated as such.
- We believe that the guidance herein should also make specific reference to its application in the determination of whether an entity’s total equity investment at risk is sufficient pursuant to the criteria in FIN 46 paragraph 5a.
- We believe an example should be provided to clearly illustrate how fees are considered in calculating expected losses and residual returns.

Proposed FSP – Calculation of expected losses under FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.

We believe the term “expected losses” as used throughout FIN 46 should be synonymous with income statement net losses as determined using U.S. GAAP. When the exposure draft of FIN 46 was open for comment, the concept of “expected losses,” as currently defined, did not exist. The current definition in FIN 46 is based on *variability* of possible future cash flows as compared to the fair value of the VIE, as illustrated in Appendix A. We believe that the Appendix A variability-based definition of expected losses requires an unnecessarily high amount of judgment, is overly complex, and is impractical to apply. Additionally, it is misleading in practice to use the common term “expected losses,” in reference to the complex calculation methodology illustrated in Appendix A. Accordingly, we believe use of this terminology in this context can be widely and easily misunderstood. For these reasons, our view is that the use of GAAP losses in place of the Appendix A version of “expected losses” would be preferable.

However, if the Appendix A variability-based definition of expected losses is reconfirmed, we believe the illustrative example included in this proposed FSP should be enhanced to provide substantive guidance that is incremental to what currently exists in Appendix A. For instance, we believe the example in this proposed FSP could be improved by including illustrations of how to incorporate 1) expected variability in the fair value of the VIE's assets (if not included in the determination of net income or loss) into the determination of expected losses and expected residual returns, and 2) fees paid to the decision maker or a guarantor of substantially all of the entity's assets or liabilities. Additionally, the scope of this proposed FSP should be expanded to include an illustrative example of the computation of expected residual returns, including the specific components that are unique to it, including fees paid to the decision maker or a guarantor of substantially all of the VIE's assets or liabilities (paragraph sections 8c and 8d). We believe additions such as these will meet the goal of providing useful guidance in this proposed FSP.

Proposed FSP – Treatment of fees paid to decision makers and guarantors in determining expected losses and expected residual returns of a variable interest entity under FASB Interpretation No. 46, Consolidation of Variable Interest Entities.

This proposed FSP addresses the question of how to incorporate fees paid to "... a decision maker or provider of a guarantee ..." in the calculation of expected losses or residual returns when determining which enterprise, if any, is the primary beneficiary. We understand that a VIE may only have up to one decision maker, if any. Therefore, we believe the language in the proposed FSP should be changed to the following: "... *the* decision maker or a provider of a guarantee ...", clarifying the fact that only one of the parties to a VIE can be designated as "the" decision maker.

Also, this proposed FSP specifically relates to the treatment of fees in determining the primary beneficiary (paragraph 14 of FIN 46). However, expected losses are also used in the process of determining whether an entity's total equity investment at risk is sufficient pursuant to the criteria in FIN 46 paragraph 5a. We believe the guidance contained in this proposed FSP should apply equally in both uses. Therefore, we suggest that the opening question in the proposed FSP be modified to refer to the application of this guidance in the context of paragraph 5a as well.

Additionally, the example of Appendix A of FIN 46 provides an example of a computation of expected returns, however this illustration does not incorporate an assumption for fees paid to the decision maker or a guarantor. In order to more clearly illustrate how fees interact with other components of expected losses and residual returns, we suggest that a specific example be provided.

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

Sincerely,

James A. Bell
Senior Vice President Finance and Corporate Controller
The Boeing Company