

June 3, 2003

Director, TA&I-FSP  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Proposed FASB Staff Positions on FASB Interpretation No. 46**

We appreciate the opportunity to comment on the proposed FASB Staff Position (FSP) addressing the reporting of variable interests in specified assets of variable interest entities as separate variable interest entities under paragraph 13 of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (the Interpretation).

The proposed FSP would be more helpful if it clarified the term "accounting allocations." We understand from our external auditors this phrase to mean that no silo is created if any allocation is needed to balance the silo's assets with its liabilities and equity. For example, if a variable interest entity's assets and liabilities are separable from the rest of the entity, then a portion of the VIE's equity also must be separately identified as supporting those assets and liabilities and in order for a silo to be created. Based on our understanding, a VIE would need to be able to specifically identify and separate the equity underlying assets and liabilities already specifically identified and separated from the VIE's other assets and liabilities. It is rare that an entity's equity is legally segregated in such a manner. A VIE will need to evaluate their equity position and determine if their right to residual returns of the specified assets is greater than the enterprise with the variable interest in the specified assets. If not, a silo should be created.

We understand that practice is evolving to state that, for example, a lessee's interest in a specific asset (through a residual value guarantee and a call option to purchase the leased asset) will qualify as a silo if the lessor's equity interest in the specific asset is 5.0% or less. The remaining 95% of the lessor's interest can be represented by debt, but only if the debt is nonrecourse to the lessor's other assets. The equity will most likely need to be allocated, and no silo would be created if the proposed FSP is finalized in its current form. We believe a silo is created in this example, however, because the specified assets are "essentially the only" source of payment for specified liabilities or equity interests. Accordingly, we believe the silo should be consolidated on the lessee's financial statements.

**Please call David Roberts at (408) 570-8283 with any questions you may have on our comment at your convenience.**

**Sincerely,**

**/s/ William M. Klein**

**William M. Klein  
Chief Financial Officer**

**/s/ David W. Roberts**

**David W. Roberts  
Treasurer**