

November 21, 2003

Letter of Comment No: 118
File Reference: 1082-300
Date Received: 11/21/03

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
File Reference No. 1082-300

RE: Exposure Draft: Proposed Interpretation – Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46

Dear Mr. Smith:

Pegasus Communications, Inc. is a provider of direct broadcast satellite services in the rural portions of 41 states and the owner/operator of broadcast television stations in the eastern portion of the United States. Following are our comments for your consideration.

1) Paragraph A24.

This paragraph provides background and the rationale for the proposed changes to paragraph 7 of the interpretation. The way this paragraph reads is that the entity that is subject to an evaluation as a variable interest entity needs to consider whether or not it is a variable interest entity based on the reconsideration events discussed in paragraph 7. It is our understanding of the interpretation that the entity that is subject to such an evaluation need not make the determination of whether or not it is a variable interest entity because such a determination does not affect its financial reporting. It is only the holders of an interest in the entity that need to determine whether the entity is a variable interest entity, for such a determination affects the financial reporting of the holders. We believe that it would be very burdensome, and perhaps impractical and even impossible, particularly for entities that have wide, varied, and numerous unrelated interests in it, for the entity to go through the exercise of determining whether or not it is a variable interest entity, especially if this has no impact on its own financial reporting. The entity subject to the evaluation should not be concerned whether or not it is a variable interest entity that may be consolidated by other enterprises, especially if that entity is not subject to control by a holder or is unrelated to holders of an interest in it and is only subject to consolidation by another in accordance with the interpretation. Control in the previous sentence refers to voting control or control by some other means in which another enterprise can direct the activities of the entity. This concern may be relevant and practical in closely held situations in which the enterprise performing the evaluation of the entity is the creator and primary beneficiary of the entity, or which the parties involved are related to one another, but not practical or relevant for entities that have wide, varied and numerous unrelated interests in it.

We would like to see a clarification in the final interpretation that the entity subject to an evaluation as a variable interest entity does not need to make this determination itself. We believe that additional confusion will arise in the application of the interpretation and may result in undesirable scope limitations in the opinions of independent accountants auditing the affected entity without this clarification. We foresee instances in which independent accountants would qualify their opinions for noncompliance with the interpretation for entities that do not make a self determination of whether or not they are a variable interest entity because the interpretation appears to require that such be done.

2) Paragraph 15.

This paragraph discusses situations in which reconsideration of the primary beneficiary of an entity should take place. We believe there are instances contained in this paragraph that would be impractical, and even impossible, for variable interest holders to know when a reconsideration event may have incurred, especially if those events involved other unrelated variable interest holders of the entity or the entity has wide, varied, and numerous holders. This may be reasonable, practical, and possible with entities that are closely held or in which the holders are controlled by a common enterprise or are otherwise related to one another. We believe that it would be more reasonable and practical for variable interest holders to conduct a reconsideration of whether or not they are the primary beneficiary for events that they are, or that they reasonably may be, aware of. For example, it may not be reasonable for a variable interest holder to know of changes that involve other variable interest holders for entities that have wide, varied, and numerous interests in it, unless the changes specifically impact and are known by a specific individual holder or affect the overall governing document(s) to which each holder is a party to, or unless the holder is controlled by one or is otherwise related to one or more of the other interest holders. Without control over that entity, that entity would not be compelled or under any obligation to provide us with the necessary information to know or to assist us in knowing of such events if those events did not specifically affect our rights with respect to the entity. We would like to see a clarification that limits reconsideration by an individual interest holder to those events that they are, or that they may reasonably be, aware of. We believe that additional confusion will arise in the application of the interpretation and may result in undesirable scope limitations in the opinions of independent accountants auditing the affected interest holders without this clarification. We foresee instances in which independent accountants would qualify their opinions for noncompliance with the interpretation for failure of enterprises to provide evidence that they were aware of all reconsideration events affecting the entity in which they hold a variable interest and that they performed the necessary reevaluations with respect thereto.

There are a few references in this paragraph with respect to changes or transactions involving the primary beneficiary that are reconsideration events for all interest holders. This would necessarily entail each variable interest holder to determine which entity is the primary beneficiary if it is not. We believe that this causes an unreasonable and impractical burden on variable interest holders, especially for entities with wide, varied, and numerous interests in it. An interest holder in an entity should only be concerned with whether or not it is the primary beneficiary of a variable interest entity, and go through the exercise of making that determination only. The holder should not need to know who, if anyone, is the primary beneficiary that consolidates the variable interest entity if it is not the primary beneficiary, for this does not affect the financial reporting of the individual holder. We contend that such a determination would be practical and possible only in closely held situations or situations in which all of the holders were involved in the creation of the variable interest entity, are related to the primary beneficiary or all of the other holders, or is controlled by the primary beneficiary or one of the other holders. We would like to see clarification that individual variable interest holders only need to determine whether or not they are the primary beneficiary, and need not determine who is if they are not. We believe that additional confusion will arise in the application of the interpretation and may result in undesirable scope limitations in the opinions of independent accountants auditing the affected interest holders without this clarification. We foresee instances in which independent accountants would qualify their opinions for noncompliance with the interpretation for failure of enterprises to identify the primary

beneficiary of variable interest entities in which they hold an interest when they are not the primary beneficiary.

We provide the comments with respect to paragraph 15 based on our experience in applying the interpretation to a specific entity in which we have an interest that has wide, varied, and numerous interests and that we do not control, were not involved in the creation of, and that is otherwise unrelated to us. Control in the preceding sentence refers to our lack of voting control over that entity and otherwise inability to direct the activities of that entity. We are not in a position with respect to this entity to know of triggering events that may occur with other holders of interests in the entity unless they affect governing documents that we are party to. For us to determine who is the primary beneficiary if we are not would create a burden us, and most likely would prove to be impractical or impossible to determine, for the entity is not under any compulsion or obligation to provide us with the necessary information or to assist as in any fashion to make the determination. In this case, we believe that a scope limitation may be created by paragraph 15 for our inability to identify reconsideration events that may be instigated by other parties for which we have no way of knowing about.

We are aware of the scope limitation exception in paragraph 4 that is being proposed by the exposure draft. However, we distinguish that scope exception to the ones we raised in our comments with respect to paragraph 15 in that the proposed scope limitation is specifically only for those situations that affect an individual variable interest holder's ability to assess their status with respect to a variable interest entity. We did not see the proposed exception extending beyond situations in which an interest holder has the ability to make a determination with respect to its individual status but not for the status of other variable interest holders of the entity for which activities or transactions may occur of which an interest holder may not have the ability to be aware of. Additionally, we do not see that the proposed scope limitation would prevent potential scope limitations from occurring that we refer to in our comments with respect to paragraph A24.

Thank you for this opportunity to participate in the standards setting process and for your consideration of our comments. We hope that you find our comments useful. If you need clarification of our comments or would like to discuss any of them, please call me at 610-934-7043.

Sincerely,
Douglas F. Jones
Director, Financial Reporting