

PricewaterhouseCoopers LLP

October 31, 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 FIN 45-a, *Whether FIN 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value*

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed FASB Staff Position No. FIN 45-a (the "Proposed FSP"), *Whether FIN 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value*. While we agree that FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45") does not in itself prescribe fair value accounting for guarantees subsequent to initial measurement, we believe that fair value accounting subsequent to initial measurement may be appropriate by analogy to accounting literature for instruments that are economically similar. If preparers and auditors are precluded from making analogies for economically similar instruments to accounting that reflects the same economic effects, then we believe that preparers and auditors would benefit from further guidance regarding subsequent measurement for certain guarantees.

Since the implementation of FIN 45, questions have arisen relating to the subsequent accounting for guarantees for which there is no direct accounting literature. For example, some instruments that meet the definition of a derivative are not accounted for as derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133") due to scope exceptions. Such instruments, along with other instruments that have characteristics similar to derivatives, may be within the scope of FIN 45 because they contain one or more of the characteristics described in paragraph 3 of FIN 45. Since these instruments are outside the scope of FAS 133, it is unclear how to subsequently measure and record them.

In another example, recourse obligations that are economically similar to FIN 45 guarantees are sometimes recorded when a company securitizes assets and qualifies for sale accounting under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In some cases, practice has

developed whereby entities carry these recourse obligations at fair value by analogy to FAS 133 and to the SEC Staff's long-held position that written options be carried at fair value. Recourse obligations are written put obligations which are economically the same as guarantees.

A third example relates to indefinite-lived guarantees, such as indemnifications provided in service contracts. Because there is no specific date on which the guarantees expire, it is unclear how to subsequently measure such guarantees. In this case, all three approaches for subsequent accounting described in paragraph 12 of FIN 45 may be reasonable as long as the method chosen is specifically disclosed and consistent among all similar types of guarantees.

As illustrated in these examples, current accounting literature does not directly address the subsequent measurement of certain guarantees that are required to be recognized under FIN 45. The wording in the Proposed FSP - "A guarantor should not use fair value in subsequently accounting for the liability for its obligations under a previously issued guarantee unless the use of that method is supported by other pronouncements or guidance under generally accepted accounting principles..." seems to imply that subsequently recording a guarantee at fair value would not be appropriate unless the guarantee fell within the scope of FAS 133 or other accounting literature that would prescribe that measure. Thus, the implication is that entities are not permitted to analogize to this same literature. However, we believe that, in the absence of accounting literature directly on point, guarantees should be accounted for subsequent to initial measurement by analogy to current literature that represents the same economic effect.

In our comment letter on the exposure draft of FIN 45 we agreed that the scope of FIN 45 should not prescribe subsequent accounting for guarantees. However, we continue to suggest that further guidance be provided regarding the subsequent measurement of guarantees through the revenue recognition or some short-term project. In addition, we believe the FASB should state that, in the absence of accounting literature directly on point, it may be appropriate for entities to make analogies to current literature when determining how to account for guarantees subsequent to initial measurement.

We appreciate the opportunity to express our views in this letter. If you have any questions regarding our comments, please feel free to contact Thomas Barbieri (973) 236-7227 or Woody Wallace (646) 471-2850.

Sincerely,

PricewaterhouseCoopers LLP