



August 30, 2002

MP&T Director
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 115
File Reference: 1082-200
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Dear Sir or Madam:

The Williams Companies, Inc. appreciates the opportunity to provide comments on the proposed interpretation for "Consolidation of Certain Special-Purpose Entities." We agree with the Board that if a business enterprise has a controlling financial interest in an SPE, the assets, liabilities, and results of the activities of the SPE should be included in the consolidated financial statements of the business enterprise. However, we do not feel that ownership of variable interests of less than 50 percent represent a controlling financial interest. In addition, we feel the interpretation, as currently proposed is vague and contradictory and would be complex to apply. We suggest the clarification of some of the terms used, including "SPE," and the addition of further application examples.

Clarification of Terminology

There are several terms/concepts used in the proposed interpretation that have not been adequately defined, described or illustrated and, as such, are open to subjective and inconsistent interpretation and application. These include:

Special-purpose entity (SPE). There is no definition of an SPE and only limited description of its characteristics. Paragraph 3 indicates that the distinguishing characteristic of an SPE subject to the Interpretation is that voting equity interests do not give the holders a controlling financial interest regardless of the percentage owned; however, paragraph 9 provides the conditions that would cause an SPE to be evaluated for consolidation based on voting interests. These paragraphs seem contradictory. There are also no examples of application. It is not clear what would and would not constitute an SPE and, hence, whether the interpretation would apply to a given entity.

Sufficient equity investment. Sufficient is a very subjective term that will likely result in inconsistent application without further illustration. In addition, the concept of a sufficient equity investment in paragraph 9(b) is difficult to understand. The final interpretation should provide examples of the application of concept.

Significant portion of the variable interest that is significantly more than any other party's variable interest. Significant is also a very subjective term that will likely result in inconsistent application of this concept. Paragraphs 20 and 21 of the proposal, which provide items to consider when the variable interests are *similar*, seem to imply that "significantly more" may not be a very large difference. This is contrary to our understanding of "significantly more." Examples of application would be helpful.

The key components of this interpretation are complex and subject to varying interpretation. Without clear guidance, inconsistent application will result. The final interpretation should include formal definitions and descriptive characteristics where currently lacking and illustrations of the application of each of the concepts within the interpretation.

Consolidation without a controlling financial interest

The proposed interpretation would require the consolidation of an SPE by the enterprise that has a controlling financial interest in the SPE that is established by means other than holdings of voting interests. The proposal requires consolidation if the enterprise holds a majority of the total variable interests or a significant portion of the total variable interests that is significantly more than the variable interest held by any other entity. Holding a portion of the total variable interests that is less than a majority of the variable interests does not give an enterprise a controlling financial interest, and consistent with SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, should not require consolidation. Consolidation of an SPE in which an entity has less than a majority controlling financial interest would result in inclusion in an entity's financial statements of assets that it does not control and appears to be in conflict with current literature regarding the equity method of accounting for investments where control and significant influence are distinguished.

Additionally, entities that have less than a majority of the variable interests in SPEs may not have access to third-party information necessary to identify all other parties holding variable interests and to determine what percentage and type of the total variable interests each party has. This will add an additional element of subjectivity to the process and may lead to inconsistent assessments as to consolidation by different parties. It is possible that two independent parties could both conclude that they must consolidate the SPE.

Finally, when an entity holds less than a majority of the variable interests, it is more likely their share of the variable interests in an SPE will fluctuate from period to period. This could result in an SPE moving into and out of consolidation by that entity. This would lead to an obvious inconsistency in the entity's financial statements.

Scope exception for subsidiaries of a substantive operating enterprise

The scope exception for subsidiaries, etc. of a substantive operating enterprise will result in inconsistent treatment of virtually identical situations. For example, a lessee that provides a residual value guarantee may be required to consolidate a lessor SPE that is subject to this interpretation; however, a similar lessee that provides an identical residual value guarantee would not be required to consolidate a lessor SPE that is a consolidated subsidiary of a substantive operating enterprise. This scope exception will allow form to prevail over substance and opens a loophole whereby an entity may "rent" their balance sheet in exchange for a fee to others wishing to avoid consolidating an SPE.

We believe that application of this interpretation, as currently proposed, would be difficult and would result in numerous subjective determinations of application. We appreciate the opportunity to comment and would be pleased to discuss our views with the FASB staff.

Sincerely,

Gary R. Belitz
Controller and Chief Accounting Officer
The Williams Companies, Inc.