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Vice President & Controller
August 28, 2002

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Suzanne Q. Bielstein
File Reference 1028-200
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 35
File Reference: 1082-200
Date Received: 08/28/02

PROPOSED INTERPRETATION

Dear Ms. Bielstein:

Thank you for the opportunity to respond to the Proposed Interpretation – *Consolidation of Certain Special-Purpose Entities*.

In light of current economic events, particularly the collapse and subsequent investigation into business practices at Enron, we certainly understand the Board's desire to appear responsive to related issues. We also understand and agree with the Board's desire to address accounting for Special Purpose Entities (SPEs). However, we have serious concerns with the intent of this review and the scope of the interpretation.

The intent of an interpretation is to clarify existing generally accepted accounting principles (GAAP), not to establish a new basis for accounting for a particular transaction. We believe the interpretation, as written, would create a major change to existing guidance. The level of due process provided to an interpretation does not appear to have been sufficient to consider such wide-sweeping changes.

In particular, we do not understand the motivation for including leasing arrangements in the scope of the interpretation. Including leases in the scope of this interpretation would lead to situations where there are multiple accounting interpretations for identical transactions. Existing guidance regarding leases has been well established after rigorous debate and due process. The guidelines have formed the basis for leasing transactions established for legitimate business purposes. These types of transactions have not been abusive. To our knowledge, the method of accounting for operating leases has not been an issue in the recently uncovered frauds and financial irregularities at Enron and other such organizations. By applying the proposed rule changes to transactions that have already been long established, we believe investors and readers of financial statements

would only face greater confusion and presume that such transactions were somehow not for legitimate purposes or had been incorrectly or abusively recorded.

Under the provisions of the proposed interpretation, two identical lease transactions would have different GAAP requirements based solely on the presence of an SPE. If no SPE is involved, the requirements of Statement of Financial Accounting Standards No. 13, *Accounting for Leases* (as amended) would apply. If the lessor utilizes an SPE for the same transaction, a lessee would likely be forced to consolidate that SPE. Explaining such a situation to the readers of financial statements in a manner as to address their concerns would be extremely confusing.

We strongly believe lease arrangements should be removed from the scope of the interpretation. We urge the Board to reconsider the implications of this interpretation on existing GAAP. In its zeal to appear responsive to the current crisis in confidence that has shaken financial reporting, we believe the Board has overly simplified the ramifications a change of this magnitude would have on financial reporting. Rather than clarify existing policy, which is presumably the Board's intent by issuing an accounting interpretation, we feel the proposed set of rules would only cause further confusion by radically redefining existing GAAP. We believe such a change is inappropriate.

Regards,

A handwritten signature in black ink, appearing to read "Frank H. Brod". The signature is fluid and cursive, with a large initial "F" and "B".

Frank H. Brod
Vice President and Controller
The Dow Chemical Company