

Ford Motor Company

August 28, 2002

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
The Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Letter of Comment No: 34
File Reference: 1082-200
Date Received: 08/28/02

Re: File Reference No. 1082-200
Comments on Exposure Draft, Proposed Interpretation of "Consolidation of
Certain Special-Purpose Entities", an interpretation of ARB No. 51

Dear Ms. Bielstein:

Thank you for the opportunity to respond to the recent exposure draft on the Proposed Interpretation of "Consolidation of Certain Special-Purpose Entities". We would like to provide the Board with some insights on the impact of the proposed interpretation on our business and our recommendations.

Background

Ford, principally through its Ford Motor Credit subsidiary, securitizes its receivables because it allows us to access the highly liquid and efficient market for securitizing financial assets, thereby providing us with a cost-effective source of funding. Securitization has allowed us to diversify our funding sources, and represents an important source of funding that has been less susceptible to changing market conditions. We have made a significant investment in securitization capability so that we could rely on this funding source in an economic downturn, when other funding sources may not be available or cost effective.

We were the largest securitizer of automobile financing receivables in 2001, with \$58 billion of sold receivables outstanding at December 31, 2001 (including Ford's retained interest in those receivables). We have been a regular and major participant in the asset-backed securitization market since 1988 and have contributed to the depth and liquidity of the ABS market. We've issued 52 series of publicly issued ABS securities totaling \$100 billion, of which over \$65 billion have met market expectations and since been retired. Ford helped to return the capital markets to normalcy after September 11th by bringing a large ABS deal to market in the week after the devastating events. More information on our securitization programs is provided in Attachment I.

Consistent with conventional practices in the securitization industry, we use special purpose entities (SPEs) to segregate specific pools of assets for securitization investors. The composition of each asset pool may differ from other pools in form, term, and credit quality. Within each pool there is a wide dispersion of risk. For example, one of our recent securitization transactions involved well over 100,000 obligors geographically dispersed throughout the U.S., with various levels of well-defined credit quality.



Disclosures for SPEs

Beginning with our 2001 10-K report, we significantly increased the amount and detail of information that we disclose to investors on our use of securitization and SPEs. We have attempted to show clearly the link between our managed and owned portfolio for key elements of our income statement, balance sheet, and cash flow statement. We provide extensive information on sold and managed assets, our securitization structures, our continuing obligations to SPEs, the impact of SPEs, and how sold receivables have impacted our financing margins and profits. Furthermore, we provide ABS investors with detailed monthly reports on the performance of assets in securitization transactions. All of this information is publicly available on our investor relations website. We provide these data to enhance the clarity of our financial statements and provide greater transparency to investors. We want our investors to understand exactly how and why we use SPEs so that we can ensure continued access to the deep and liquid securitization market.

Impact of Exposure Draft

We are concerned that the exposure draft is unnecessarily complex and leaves many questions and issues unresolved. It potentially causes confusion by requiring companies to consolidate assets that they don't own and report liabilities for which they have no obligation to repay. This could increase uncertainty for investors and ultimately negatively impact our funding costs and impair our liquidity.

Subsequent to the issuance of the exposure draft we have consulted with a number of well-respected financial advisors to determine the impact of the exposure draft on our existing funding programs. All of the advisors expressed concern about developing required changes to our programs in the absence of further clarifications to the exposure draft. As a result, we have been reluctant to expand some of our programs, even though they provide us with low cost funds and have strong investor demand. In addition, we have delayed efforts to develop new funding programs until the definition of the proposed new rules has been settled. Again, this has resulted in increasing our funding costs.

It is our expectation that we will continue to access the securitization market, and, of course, we will comply with any new accounting rules. However, we believe that the exposure draft in its present form would increase the complexity of existing financing structures, which are already complex and highly structured. This will result in higher legal, accounting and administrative costs for most issuers. Subsequent securitization disclosures will be more complicated and confusing to investors. The additional complexity (and increased costs) are not counterbalanced by any measurable benefit to investors. Ultimately, securitization issuers will be forced to pass on these increased costs to consumers in the form of higher finance costs.

Timing

The asset-backed securitization market today efficiently provides over \$1 trillion of capital (excluding mortgages) to the U.S. economy. The proposed exposure draft addresses an extremely complex subject, and changes need to be considered carefully, in light of the impact that they could have on the capital markets. We suggest that the Board thoughtfully consider changes to existing policy, rather than quickly implement changes that will require clarifications and revisions in the future. Subsequent changes, and further modifications will result in additional confusion to investors, and increased complexity and costs for securitization issuers.

We also are very concerned about the extremely short implementation period proposed under the exposure draft. One fiscal quarter of implementation time is not sufficient to amend or replace these financing structures. Any changes to a program will require the approval and consent of investors, liquidity providers and other market participants. As an example, if we need to modify one of our key programs, we would need to obtain the consent and approval of over 50 liquidity providers and over 100 investors, whose processes to review and approve changes to



investments can take several months. We would be seeking the attention and consent of these parties at the same time when many other issuers will be revising their programs and pursuing similar consents. Additional transition time is crucial to the continuation of the availability of our programs at existing funding levels.

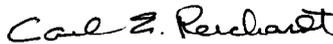
We also are concerned about the timing of the combined impact of the exposure draft and EITF Issue No. 02-12, "Permitted Activities of a Qualifying Special-Purpose Entity in Issuing Beneficial Interests under SFAS No. 140". The two proposals would be extremely difficult to interpret and implement simultaneously. The combination would be exceptionally disruptive to the ABS industry and could impair the availability of capital to a broad spectrum of buyers during what is clearly a very difficult time in the economic cycle.

Recommendations

We applaud the Board's effort to improve the transparency of reporting for SPEs, however we believe that this is best achieved through increased disclosures. Furthermore, many issues in the exposure draft require additional clarification. We have attached detailed recommendations and observations in Attachment II.

We strongly recommend that the Board consider a longer implementation period. The complexity of the proposed interpretation, and the significant impact that it may have on capital availability would suggest that a minimum of 12 months should be given to fully implement any changes.

Thank you for the opportunity to provide comments on the exposure draft. If there are any questions, please do not hesitate to contact me, or Patricia Little (313-845-9255), our accounting director.


Carl E. Reichardt
Vice Chairman

Attachments



Ford Motor Company
SECURITIZATION PROGRAMS

We use SPE's in the following securitization programs:

- **Retail & Wholesale Securitization** – we sell pools of retail installment sale contracts and wholesale finance receivables to QSPEs that issue securities, most of which are sold to investors in underwritten public offerings or private transactions.
- **FCAR Owner Trust** – a limited purpose trust that purchases asset-backed securities issued by Ford Credit-sponsored securitization qualifying special purpose entities (QSPEs). FCAR issues asset-backed commercial paper and equity certificates that are sold to investors. FCAR does not qualify as a QSPE because its permitted activities are not sufficiently limited under SFAS No. 140. FCAR achieves off-balance sheet treatment under current accounting rules that require substantive outside equity.
- **Motown Notes Program** – an asset-backed commercial paper program that we administer. Motown Notes are issued by a QSPE that owns a pool of wholesale receivables and are secured by an undivided proportionate interest in these receivables.
- **Bank-Sponsored Asset-Backed Commercial Paper Issuers** – we sell pools of retail installment sale contracts to committed bank-sponsored asset-backed commercial paper issuers that are SPEs of the sponsoring bank.

Issues Requiring Clarification

Proposed Interpretation of "Consolidation of Special-Purpose Entities"

Scope

Securitization provides a means to isolate the risks and rewards to our investors, and at the same time has allowed us to diversify our funding sources. We recommend that transactions involving a true sale or transfer of assets and a true transfer of their related risks and rewards to a bankruptcy remote SPE be exempt from the scope of this interpretation – and that such transactions continue to be governed by previously issued consolidation guidance. We suggest that it would be inappropriate to consolidate such transactions because the assets do not represent future economic benefits to the creditors or shareholders. Neither would they have a claim to them in a bankruptcy. To report assets and liabilities of a transaction as described would be to misrepresent the total assets an entity controls, and misrepresent liabilities for which the entity is responsible.

Definition of Variable Interests

In paragraph 7b, we believe the Board needs to clarify whether or not contractual rights and obligations representing a fixed return or fee would be considered variable interests for purposes of applying this Interpretation.

Consolidation Based on Voting Interests

When evaluating the percentage of an equity investment to total assets, the proposed Interpretation states that any equity investment less than 10 percent of total assets is presumed to be insufficient to allow the SPE to finance its own activities. This presumption is only overcome if there is persuasive evidence that an equity investment of less than 10 percent of total assets is comparable to the equity of businesses that are not SPEs and engage in similar transactions with similar risks.

We suggest clarification and/or an example of what "persuasive evidence" consists of, and how we might apply this to an SPE for which there is a lack of public information about comparable businesses.

Consolidation Based on Variable Interests

For SPEs evaluated for consolidation based on variable interests, the proposed Interpretation requires in paragraph 14 that all factors influencing consolidation decisions should be reconsidered at each reporting date.

We suggest clarification on the definition of reporting date, and on the type of reconsideration necessary. Reconsidering all information on a quarterly basis could be very burdensome on all parties involved in a SPE, and we believe that frequent changes to which entity consolidates a SPE would increase the volatility of the financial statements and would reduce the usefulness and comparability of the financial statements to the users. For this purpose, we suggest that companies reconsider the consolidation of a SPE only when the structure of a SPE has substantially changed, instead of going through the entire review process of every SPE on an annual or quarterly basis.

Certain SPEs referred to as "silos" (paragraph 17 and footnote 6 of the Exposure Draft) are extensively used in the form of multi-seller conduits. We suggest further discussion and clarification for the application of the proposed Interpretation to silos, and we feel that the inclusion of examples would be very helpful. Specifically, how would a transferor to a silo apportion the SPE's liabilities associated with the transferred assets? Due to the variability of the assets transferred to these SPEs, (both the variability in type of asset and terms of the assets transferred) the portioning can be very complex. After portioning, where in the process of evaluation for consolidation would we begin? Would we start by determining if the silo were a QSPE, evaluate voting interests first, or begin with the comparison of variable interests?

When applying the proposed Interpretation to a silo, is it correct to conclude that an entity would not be required to evaluate their variable interests in a silo if the entity were to transfer financial assets to a QSPE, and the QSPE then participated in the silo?

Identifying and Comparing Variable Interests

Paragraphs 19 and 23 (c) discuss market-based fees, and presume that any fee paid by a SPE is not market-based unless it can be demonstrated to be comparable to fees in similar observable arm's length transactions or arrangements. In practice this will be difficult to prove as many transactions are privately placed.

In previously issued guidance on consolidation, the Board has identified an entity's ability to increase benefits and limit losses as an essential characteristic of control. Paragraph 20 of the proposed Interpretation is focused only on losses. Is this an intentional deviation from prior guidance? If so, why are we not also comparing expected future gains?

SPEs That Hold Certain Financial Assets

In paragraph 23 (a) the use of the terms "significant discretion" and "significantly affect" allows for much subjectivity in the analysis of variable interests. We recommend that additional guidance be provided.

Paragraph 23 dictates that a qualifying entity (paragraph 22) would move on to evaluate consolidation based on variable interests in paragraph 13 (b) and (c) if it meets two of the three conditions in paragraph 23 (a), (b), and (c). Paragraph 23 (b) lists "guarantee, a back-up lending arrangement, or other form of liquidity, credit or asset support." It is unclear whether an entity that has multiple elements of 23(b) would be considered to have met "at least" two of the three conditions. We recommend that paragraph 23 be modified to clarify this point.

Related Parties

Paragraph 15 (e) indicates that an enterprise should treat variable interests held by a party that has a de facto agency relationship with the enterprise as a result of providing significant amounts of professional services or similar business arrangements as its own interests. Inclusion of an independent third party's variable interests with the enterprise's interests may generate misleading and erroneous conclusions. The new standard must recognize that entities can have business relationships that are mutually beneficial and do not impair the independence of either entity.

Other Questions

Current consolidation standards prescribe an adjustment to Net Assets and Income on a consolidating entity's financial statements for the portion related to minority interests in a consolidated subsidiary. The proposed Interpretation is silent on whether or not a similar offset would be made for a minority interest in a SPE consolidated under the Interpretation. We believe that accounting for a minority interest in a SPE consolidated under the Interpretation should be consistent with current practice, and feel the Board should consider adding guidance in this respect.

Under current accounting standards, a company will evaluate its customer receivables and recognize an expense for anticipated losses. However, the company does not adjust its liabilities. The proposed Interpretation does not address this issue, especially as it relates to assets and debts that the consolidating company is neither legally entitled to nor legally liable for. We recommend that the proposed Interpretation address this issue.