

Stacey Sutay

From: Len Tatore
Sent: Wednesday, August 07, 2002 7:40 AM
To: Stacey Sutay
Subject: FW: Comment Letter File Reference 1082-200

Letter of Comment No: 8
File Reference: 1082-200
Date Received: 08/06/02

-----Original Message-----

From: Perisho, Jim [mailto:perisho@ptr.com]
Sent: Tuesday, August 06, 2002 5:07 PM
To: 'director@fasb.org'
Cc: 'ivolkert@aicpa.org'
Subject: Comment Letter File Reference 1082-200

MP&T Director
File Reference 1082-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed Interpretation, "Consolidation of Special-Purpose Entities"

To Whom It May Concern:

We would like to comment on the exposure draft for the proposed Interpretation, "Consolidation of Certain Special-Purpose Entities."

We perform audits and reviews of privately-held companies. Thirty to forty percent of our corporate clients engage in transactions with related companies where there is no direct equity investment but common ownership exists. A typical fact pattern is as follows:

Typical Fact Pattern

Company A leases their office building from Company B, a partnership. Company A is the only lessee of the office building and the office building is Company B's primary asset. Company B's primary liability is a loan to the bank secured by a lien on the building. Typically, these are "mini-perm" loans that have principal payments based on 15 or 30 year amortizations but are due in 5 to 7 years. The loans generally require a lease that has a term equal to the term of the loan. Sometimes, Company A may guarantee or pledge substantially all of their assets as security for Company B's loan with the bank.

Company A has no equity interest in Company B. However, both companies are 100% owned by the same individuals (i.e. under common ownership).

Question: Should Company B be consolidated with Company A? Based on the draft interpretation, we are not sure of the answer to this question. Page ii of the Summary says:

".....this proposed Interpretation would require consolidation of an SPE that leases to a single lessee by either the lessee or the lender unless the equity investor has decision-making authority and the investment meets specified conditions for sufficiency, which may require an investment significantly greater than 3 percent of assets. If an enterprise that leases from an SPE that is subject to this proposed Interpretation provides a guarantee of the value of the property at the end of the lease or otherwise accepts risk of loss from changes in value of the property, the lessee would probably consolidate the SPE lessor. If the lessee does not provide such a guarantee, the lender to the SPE would probably consolidate the SPE."

Based on this paragraph, it would appear that Company B should be consolidated with Company A. However, we are still unclear as to who the primary beneficiary would be in this case: the bank or the lessee? Example A3 seems to indicate that the answer depends on whether Company A guarantees Company B's loan.

We would like to see more specific examples set out in the body of the Interpretation that would assist us in making this determination.

8/7/02

Cost/Benefit Analysis

If this interpretation dictates that the companies A and B in the above example should be consolidated, there could be a substantial financial burden to our privately-held clients. They would probably need assistance in preparing the consolidation.

Also, are the consolidated financial statements more meaningful to the users? For most privately-held clients, the primary financial statement users are the owners and the bank. Both parties would already know about the related Company, as it is disclosed in the footnotes to the financial statements as a related party. Is the additional information provided by consolidated financial statements worth the additional cost?

We agree that the Enron type SPE's should be addressed, but there are only a few thousand public companies while there are tens of thousands of privately-held companies that could be affected by this interpretation.

James C. Perisho, CPA
Perisho Tombor Loomis & Ramirez
901 Campisi Way, Suite 250
Campbell, California 95008
Phone (408) 558-4100
Fax (408) 558-0511