PriceWaTerhousE(copers 🛭

PricewaterhouseCoopers LLP 400 Campus Dr. Florham Park NJ 07932 Telephone (973) 236 4000 Facsimile (973) 236 5000 www.pwc.com

October 15, 2008

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



LETTER OF COMMENT NO. / >

File Reference: Proposed FSP FAS 140-e and FIN 46(R)-e

PricewaterhouseCoopers appreciates the opportunity to comment on the FASB's proposed FSP FAS 140-e and FIN 46(R)-e, Disclosures about Transfers of Financial Assets and Interests in Variable-Interest Entities (the "proposed FSP").

Recent economic events have heightened the need for increased transparency of companies' risk exposures to off-balance sheet structures. We generally support the FASB's proposal to address this need by requiring public companies to provide additional disclosures about their continuing involvement with transferred financial assets and their involvement with variable-interest entities. Such additional disclosures will provide investors, analysts, and other key stakeholders with more information about these structures and the underlying risks to which companies are exposed.

We support the inclusion of the principal objectives of the disclosures in the proposed FSP. They emphasize the need for companies to be flexible in meeting the disclosure objectives and provide disclosures not stipulated by the specific requirements if such disclosures would meet the principal objectives of the disclosure requirement and provide useful information for financial statement users,

Specific disclosures currently included in the proposed FSP are, however, quite extensive, and certain of them will require companies to invest a significant amount of time and effort gathering data, analyzing exposures, and preparing footnotes. Requiring this level of information also carries with it an inherent risk: i.e., financial statements, weighted with this volume of information, can become less transparent and more cumbersome to financial statement users. To address this issue, we recommend that the Board analyze comments received from preparers of financial statements and carefully consider the costs and benefits of the proposed disclosures. In making the case for including these disclosures in the final FSP, the Board and its constituents need to be confident that they will improve the relevance and reliability of financial reporting and will provide incremental value to stakeholders.

The Board should also consider allowing companies to exercise further judgment in applying the proposed FSP's aggregation principle. Different users prefer different levels of information. While certain users may naturally prefer the most disaggregated level of information available, others may find that same level of information unwieldy and excessive. In deciding whether to disclose disaggregated or aggregated information, preparers should be able to use judgment to determine which information will be most useful to financial statement users and will accomplish the principal objectives established by the proposed FSP. The Board should consider including an example in the

PRICEWATERHOUSE COPERS @

proposed FSP to demonstrate a reasonable application of the aggregation principle for continuing involvements in transfers of financial assets and involvements with variable-interest entities.

If adopted as proposed, the FSP would become effective at the end of the reporting period (i.e., quarter for public entities) in which it is ultimately issued. We agree that the proposed FSP should be implemented as soon as possible and in advance of the proposed accounting amendments to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities. However, we are concerned that companies may not have sufficient time to fully consider the principal objectives of the disclosures and assemble the required information. This could cause some entities to provide disclosures that are unclear or incomplete. We urge the Board to consider those concerns, as well as possible alternatives, such as giving companies additional time to make disclosures that are identified to be burdensome from comments received through the comment letter process.

As we stated previously, we generally support the enhanced disclosures on transfers of financial assets and interests in variable-interest entities proposed by the FSP. However, we ask the Board to consider the following specific comments on the FIN 46(R) proposed disclosures:

- 1. The proposed FSP will often subject transactions with variable-interest entities to increased disclosures in comparison to similar transactions with other entity types. For example, a company that provides a guarantee to a variable-interest entity will have significantly more disclosures than a company that provides the same guarantee to a voting-interest entity. We suggest that the Board consider this inconsistency in its deliberations, exploring whether these differences in disclosures are justified and whether the proposed disclosures will be understandable and decision-useful to financial statement users.
- 2. The proposed FSP requires disclosure of significant assumptions and judgments made in determining whether an enterprise is a primary beneficiary, and whether a different assumption or judgment could have reasonably been made that would result in a different conclusion. We agree with the requirement to disclose significant assumptions and judgments that are ultimately used to prepare the financial statements and present the actual financial position. However, disclosure of other significant assumptions and judgments that were considered, or could have been considered, but were not chosen for the preparation of the financial statements may not be relevant information for financial statement users and is inconsistent with disclosures required for other management judgments.
- 3. The implications of disclosing a company's maximum and estimated loss exposure, if it (1) holds a significant variable interest or (2) is a sponsor with a variable interest in a variable-interest entity, should be carefully considered. Determining the maximum and estimated exposure to loss will require significant judgment, and the estimated amount of the loss, despite management's best efforts, may differ significantly from the actual loss. This will likely raise questions about the reliability and usefulness of the disclosures, and it may pose significant legal concerns for many companies. In addition, the proposed FSP lacks clarity regarding how the estimated exposure to loss or a range of loss is to be determined. For example, if an enterprise is guaranteeing a liability of a variable-interest entity, would the enterprise determine its single best estimate of loss on the contract or perform a probability-weighted analysis? We suggest that the Board clarify this requirement in the final FSP.
- 4. The proposal requires disclosure of quantitative and qualitative information about a company's involvement with a variable-interest entity if there is an implicit or explicit arrangement to ensure that a variable-interest entity operates as designed. Similarly, the proposed FAS 140 disclosures require consideration of implicit and explicit arrangements in providing quantitative and qualitative information about transfers of financial assets, when the transferor has continuing involvement in the transferred financial assets. Our concern with disclosure pertaining to implicit arrangements is

PRICEV/ATERHOUSE COPERS @

Pricewaterhouse Coopers LLP

similar to the one we expressed in our comment letter on the Proposed Statement of Financial Accounting Standards, *Disclosure of Certain Loss Contingencies – an amendment of FASB Statements No. 5 and 141(R)*. The proposed disclosure reveals the natural tension between greater transparency and the potential consequences that may come with it. For example, if a company discloses its implicit responsibility to provide financial support to a variable-interest entity if a certain event were to take place, stakeholders could hold the company liable upon the occurrence of that event even if the company ultimately decides not to step-in, due to changes in circumstances. Such a disclosure could have significant adverse consequences for a company's legal strategy and affect the ultimate resolution of the matter. The Board's goal of providing financial statement users with more transparent information needs to be weighed against the challenges of presenting that information in today's legal environment. The Board should also consider whether it will be feasible for preparers of financial statements to predict implicit arrangements and their outcomes, and whether that information will be auditable.

We appreciate the opportunity to express our views on the proposed FSP. If you have questions regarding our comments, please contact Thomas Barbieri at (973) 236-7227 or Susan Cosper at (973) 236-5156.

Sincerely,