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P FIN 46(R)-c

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

From: Stephen Ryan [mailto:sryan@stern.nyu.edu]
Sent: Monday, November 07, 2005 1:53 PM
To: Director - FASB
Subject: Comments on Proposed FSP FIN 46(R)-c

Dear Director,

This FSP constructs a complex and conceptually problematic approach to determining when derivatives and other items create versus absorb risk in VIEs that should be replaced by a clear statement of a unique concept of variability (of losses and residual returns) in FIN 46(R). In my opinion, this concept should be the variability of the fair value of the net assets of the VIE exclusive of variable interests including the potential variable interest under consideration. Under this concept, a derivative or other item that reduces this fair value variability would be a variable interest, while a derivative or other item that increases this fair value variability would not be a variable interest. This approach is simpler and more consistent with the distinction between variable interests and non-variable interests in paragraph B4 in FIN 46(R) than is the approach adopted in the FSP.

This problems with the FSP's approach are evidenced in Example 1(c). The currency swap clearly absorbs the fair value variability attributable to exchange rate risk of the foreign securities. Despite this, the currency swap is determined to "create variability" (where this really means "not be a variable interest") under the approach developed in the FSP. This determination is based on economically unimportant notions such as how the entity was designed/marketed to the other variable interest holders. By relying notions such as this, this FSP would effectively create (or perpetuate) a subtle and likely poorly understood form of intent-based accounting.

Less importantly, I did not find the discussion of the cash flow and fair value methods in paragraphs 3-4 to be clearly linked to the remainder of the FSP, which pertains to where to draw the line between variable interests and non-variable interests.

Sincerely,

Stephen Ryan