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Director, TA&I—FSP Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: 7
File Reference: FSPFIN46RC

Re: Proposed FASB Staff Position FSP FIN 46(R)-c, "Determining the Variability to Be Considered In Applying FASB Interpretation No. 46(R)"

Dear Director:

We appreciate the opportunity to respond to the proposed staff position, FSP FIN 46(R)-c. The proposed FSP should improve the overall variable interests model, and it is in that spirit that we provide you with the following views.

We agree strongly with what the guidance is getting to – preparers will need to make judgments to identify those risks that the entity was designed to pass along to its variable interest holders. Stated another way, an entity can be exposed to some risks that should not have an impact on the determination of which enterprise should consolidate the entity.

To ensure the Board's intent is communicated via the FSP as clearly as possible, we believe the examples provided should be amended to better reflect how the factors to consider would be used in the analysis. In particular, the discussion included in the examples does not provide sufficient reasoning for the determination that the derivatives entered into by the entity are not variable interests. In the examples that incorporate derivative contracts, the conclusion in each case is that the derivative creates variability that offsets the variability created by other assets or operations of the entity – indicating the derivatives are not variable interests. While we agree with the analysis, we can identify an alternative view that is at first more easily comprehendible, that the derivative absorbs the risk of that other asset or operation. That alternative should be more explicitly rejected, and the reasons for the rejection given. In certain instances, the example describes that the derivative counterparty holds no other interest in the entity. Without further understanding of how that conclusion was reached, preparers will not be positioned to make determinations when the derivative counterparty has some other interest, even a small one, in the entity. Additionally, we recommend the inclusion in the final FSP of at least one example of a derivative that is identified as a variable interest.

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The draft FSP states in paragraph 14 that qualitative analysis will <u>often</u> be conclusive in determining the variability to consider. No quantitative measures are put forward in the guidance, nor are any discussed in the examples. We recommend modifying the language to indicate that qualitative information must <u>always</u> to be the determining factor since it is based on an understanding of the design of the entity, which is fundamentally qualitative.

Sincerely,

Dennis G. Sullivan

Principal Accounting Officer

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