Accountants and Management Consultants The US Member Firm of

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Grant Thornton &

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
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We are pleased to respond to the proposed FASB Staff Position (FSP) FIN 46(R)-b, "Implicit Variable Interests Resulting from Related Party Relationships under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities." This FSP addresses an issue that is relevant to a significant part of our practice (middle-market companies that are privately held). We fully support the Board's decision to provide guidance in this area and agree with the conclusion that a reporting enterprise should consider whether it has an implicit variable interest in a variable interest entity if the conditions described in the FSP exist.

Although we agree with the conclusion reached, we have the following comments and suggestions that may help preparers and auditors better understand and apply the FSP:

- the proposed FSP assumes that the reporting enterprise has concluded that the entity is a variable interest entity. It is possible that the reporting enterprise will not be able to make that determination until it concludes whether it has an implicit variable interest in the entity. That implicit variable interest could affect whether the entity is a variable interest entity. We therefore suggest that the term variable interest entity be referred to as a potential variable interest entity.
- we believe that the information included in footnotes one and three should be included in the text of the FSP rather than be relegated to a footnote. This information is relevant to the discussion in the text of the FSP and would be more helpful to a reader if it is included there.

- with respect to paragraph 5(a), regardless of whether a reporting enterprise has an
 explicit variable interest or another implicit variable interest in a potential variable
 interest entity, we believe it should consider whether it has an implicit variable
 interest resulting from the related party relationship and that should be clear in the
 FSP. We do not believe application of the FSP should be precluded if the reporting
 enterprise has an explicit and/or other implicit variable interest in the potential
 variable interest entity.
- we believe the wording in paragraph six should be modified to better explain the reason the Board reached its conclusion. We also believe that a reporting enterprise that is not the primary beneficiary but holds a significant implicit variable interest in the variable interest entity should disclose the information in paragraph 24 of Interpretation 46(R) to the extent not required by existing generally accepted accounting principles. Our suggested changes are illustrated below:
 - 6. A—Yes. The reporting enterprise should consider whether it has an implicit variable interest in the variable interest entity when both of the conditions described above exist. The determination as to whether an implicit variable interest exists should be based on whether, in substance, the reporting enterprise through its relationship with its related party will protect holders of other interests in the entity from suffering losses or otherwise absorb some of the variability of the VIE. A reporting enterprise that holds an implicit variable interest in a VIE should apply the guidance in paragraph 17 of Interpretation 46(R) to determine whether it is the primary beneficiary of the VIE. A reporting enterprise that is not the primary beneficiary but holds a significant implicit variable interest in the VIE should disclose the information in paragraph 24 of Interpretation 46(R) to the extent not required by existing generally accepted accounting principles.
- according to the proposed FSP, a reporting enterprise should consider whether it has an implicit variable interest in a variable interest entity for purposes of applying paragraphs 16 and 17 of Interpretation 46(R) when the two conditions in paragraph 5 exist. One of those conditions is that a related party of the reporting enterprise has a variable interest or potential variable interest in the same variable interest entity. Footnote 4 states, in part, that the FSP applies to a reporting enterprise that enters into a contractual arrangement with an unrelated third party that has a variable interest in a variable interest entity and that arrangement creates a principal-agency relationship. Is footnote 4 expanding the scope of the proposed FSP beyond related parties as defined by paragraph 16 of Interpretation 46(R)? If so, the Board may want to consider amending paragraph 5 to include the situation described in footnote 4. If not, the Board may want to clarify the intent of footnote 4.

• we think it would be helpful to include an example of a supply arrangement in the FSP. Although many preparers and auditors have experience with related party leasing arrangements, they may not be familiar with related party supply arrangements and the implicit guarantees that may exist.

We appreciate the opportunity to comment on the proposed FSP and would be pleased to discuss our comments with Board members or the FASB staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560 or Lailani Moody at (212) 542-9823.

Very truly yours,

/s/ Grant Thornton LLP