

Letter of Comment No: /05
File Reference: 1082-300
Date Received: /ひ/03

Fluor Corporation One Enterprise Drive Aliso Viejo, California 92656-2606 USA

949 349 2000 tel

December 1, 2003

Director of Technical Applications and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, Connecticut 06856-5116

Re: File Reference No. 1082-300

Dear Sir or Madam:

Via email to director@fasb.org

Please accept our below comments in response to the Exposure Draft relating to Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46. Fluor Corporation is a major provider of services on a global basis in the fields of engineering, procurement, construction, operations, maintenance and project management. Incident to the ordinary conduct of our primary business activities we frequently enter into project execution related joint venture arrangements that we believe should be specifically excluded from the scope of FIN 46.

The use of partnerships and unincorporated joint ventures (collectively JV's) in the engineering and construction (E&C) industry is a common practice that has been used for many decades. These arrangements are frequently entered into to share risks, secure specialty skills required for project execution or to meet a requirement of the client. Very often these arrangements are characterized by a percentage ownership interest that requires only a small investment. Activity in these JV's reflects the revenue, earnings and cash flows that result from execution of a project pursuant to specifications in accordance with the negotiated commercial terms of a contract. Execution of the project is generally the single business purpose of these JV arrangements where the relative interest in the JV is generally equal to the scope of work to be performed by each E&C participant. External financing at the JV level is usually not required because the third-party client effectively finances the activities of the JV as work is performed through progress payments.

Director of Technical Applications and Implementation Activities December 1, 2003 Page 2 of 3

The company accounts for the activities of JV's that have characteristics as described in the preceding paragraph utilizing the long-standing practice of proportionate consolidation addressed in EITF Issue 00-1. We believe this method of accounting most accurately reflects the volume of the company's primary business activity of project execution. The proportionate recognition in the company's consolidated financial statements of each income statement and, as applicable, balance sheet classification as reflected in the JV accounts presents the most relevant measure of the company's activities and resources. The consistent application of this method of recognition is the standard by which our shareholders and other users of our financial statements compare and evaluate the volume of our overall activities.

The issuance of FIN 46 has raised questions concerning the applicability of the principles of consolidation of variable interest entities to the JV arrangements generally used in the E&C industry as discussed above. The complex relationships and interactions necessary to successfully execute a project where there are multiple contracting participants involve continuous changing levels of economic influence and risk. The scope of work of one contracting party can have enormous economic impact on the other participants at critical points in time, while such work may have only relatively minor economic cost. The use of JV's to execute projects is an effective way to bring alignment to the major participants that are dependent on one another for success. While one of the major objectives of these JV arrangements is to disperse risk, there are circumstances incident to the efficient execution of the contract on behalf of the client that may appear to recombine risks previously dispersed.

The concept in FIN 46 that provides that the primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's losses, receives a majority of its expected residual returns, or both, does not appear to us to recognize the unique circumstances that apply to E&C contract JV's. In accordance with accounting principles applicable to construction contracts any negative economic impacts or losses are required to be fully recognized at the time they are determined, regardless of the progress toward completion. The proportionate consolidation of JV activities results in the immediate recognition of such impact in the company's financial statements. We believe that the application of proportionate consolidation principles in accordance with EITF 00-1 accomplishes what FIN 46 is addressing by reflecting in the financial statements of the E&C partners their proportionate economic interests. Accordingly, we believe that JV's where the

Director of Technical Applications and Implementation Activities December 1, 2003 Page 3 of 3

application of proportionate consolidation principles are appropriate should be specifically excluded from the scope of FIN 46.

We appreciate the opportunity to provide our comments to address our concerns regarding this important matter. Should you have any questions or wish to discuss these matters further, please call the undersigned at (949) 349-3777.

Very truly yours,

FLUOR CORPORATION

D. Michael Steuert Senior Vice President and Chief Financial Officer