May 27, 2003

Director, Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856

Re: Proposed FASB Staff Position

We are pleased to respond to the Proposed FSP, Applicability of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, to entities subject to the AICPA Audit and Accounting Guide, Health Care Organizations (the "Proposed FSP").

We do not support the issuance of the Proposed FSP. We believe health care organizations are different from other not-for-profit entities in that health care organizations are more likely to utilize variable interest entities, particularly in connection with leasing transactions. In addition, health care organizations report using a performance indicator that is analogous to a for-profit entity's income from continuing operations, whereas other not-for-profit entities do not have a standardized or prescribed performance measure. We note that AICPA Statement of Position No. 02-2, Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator, required health care organizations to follow the guidance in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, for cash flow hedges as if they were a for-profit entity. Those conclusions were not extended to other not-for-profit entities for the reasons discussed in paragraph 22 of the SOP, providing further support to an argument that it is not always necessary to treat health care organizations and other not-for-profit entities in the same manner. As such, we do not believe the omission of health care organizations from the list of entities excluded from the scope of Interpretation No. 46 should be changed through the FSP process.

Our understanding is that the purpose of FSP's is to aid practitioners in understanding and implementing the Statement or Interpretation to which they relate, not to amend that Statement or Interpretation. We believe the guidance in the Proposed FSP represents an amendment of Interpretation 46. In contrast, the proposed FSP's relating to transition, fees paid to decision makers or guarantors, determining an entity's expected losses, and determining when separate variable interest entities exist within a single legal entity, provide guidance that clarifies, but does not change, the related Interpretation No. 46 guidance.

While we acknowledge that certain conclusions reached by the FASB staff on issues brought to the Derivatives Implementation Group conflicted with the guidance in Statement No. 133, the Board approved the issuance of that guidance in a public meeting after debating the merits of the conclusions. Further, the Board acknowledged the inconsistency between the proposed conclusion and the guidance in Statement No. 133. We understand that the process for issuing FSP's will

differ from the Derivatives Implementation Group process in that the Board will not publicly debate the conclusions in a proposed FSP. When the guidance in a proposed FSP is inconsistent with the guidance in a Statement or Interpretation, as it is here, we believe the Board should either follow the same process it did with Derivatives Implementation Group issues or, preferably, amend the Statement or Interpretation, subject to the Board's due process requirements.

While we understand (as indicated in the Summary of Interpretation No. 46) that it was the Board's intent to exempt all not-for-profit entities from the scope of the Interpretation, the wording in paragraph 4a of the Interpretation is unambiguous:

Not-for-profit organizations subject to the consolidation requirements of AICPA Statement of Position No. 94-3, Reporting of Related Entities by Not-for-Profit Organizations, are not subject to this Interpretation

Notwithstanding our comments above, if the Board decides to issue the guidance in the Proposed FSP, we believe clarification of the last sentence in paragraph C8 of the Basis for Conclusions would be useful in reducing diversity in practice that will likely develop in the absence of clarification. The last sentence in paragraph C8 states:

The Board is aware that some of the requirements in ARB 51 are applied in modified forms to certain not-for-profit organizations and does not intend this Interpretation to cause a change in those practices.

We believe the Board was referring to the fact that many not-for-profit organizations (in particular, the health care organizations that are the subject of this Proposed FSP) applied the guidance in the various EITF Issues addressing consolidation of special-purpose entities to determine if the not-for-profit organization should consolidate special-purpose entities (other than not-for-profit entities) used in transactions, such as leases of medical office buildings, to obtain off-balance-sheet treatment. If our belief is correct, clarifying that point will allow practice to apply the guidance as the Board intended.

We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct your questions or comments to Joe Graziano at (732) 516-5560, or Jeff Ellis at (312) 602-8991.

Very truly yours,

Grant Thornton LLP