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August 29, 2002

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Comments on Exposure Draft – Consolidation of Certain Special-Purpose Entities
File Reference 1082-200

Dear Ms. Bielstein:

The undersigned wishes to comment on behalf of The Boeing Company (the "Company") on the proposed rule issued by the Financial Accounting Standards Board ("FASB") on June 28, 2002, entitled "Consolidation of Certain Special-Purpose Entities" (the "Exposure Draft"). We applaud the FASB's efforts to enhance the transparency of financial reporting of special-purpose entities ("SPEs"), however, we have the following comments:

- Investments in enhanced equipment trust certificates should be consolidated by airlines or lessors.
- Consolidation by the primary beneficiary should be based solely on majority ownership of variable interests.
- Additional guidance should be provided to clarify the types of relationships that would be included as related parties pursuant to a "de facto agency relationship ... providing significant amounts of professional services or similar business arrangements."
- Determination of the primary beneficiary should be required upon adoption of the final rule or at the initial date of acquiring variable interests and only subsequently if the owner is directly involved in a transaction that would change its percentage of the variable interests.
- Equity investment of 10% is an acceptable threshold for non-consolidation, based on voting interest, however additional guidance should be provided to identify when levels greater or less than 10% are acceptable.
- SPE assets and liabilities should be consolidated using historical cost or additional guidance should be provided for accounting for assets and liabilities of SPEs subsequent to consolidation.
- Fees for services to SPEs should be presumed to be market-based when substantive outside investors are involved.

Consolidation of Investments in Enhanced Equipment Trust Certificates

As previously noted in a letter dated May 1, 2002, signed by constituents from Boeing Capital Corporation, Credit Suisse First Boston, Morgan Stanley, and Continental Airlines, in the airline industry SPEs have become a common vehicle of aircraft by U.S. airlines in the

debt capital markets. Specifically, airlines regularly utilize a type of SPE called a Pass Through Trust. The Pass Through Trust enables an airline to aggregate a large number of aircraft secured notes into one trust vehicle, facilitating the issuance of larger bonds called Pass Through Certificates ("PTCs"). The most common form of PTCs issued by airlines today is Enhanced Equipment Trust Certificates ("EETCs"). These EETC debt instruments offer enhanced investment risk protection as investors can make investment choices between ranked classes of Pass Through Trust securities based on their own investment profiles.

In an EETC, the equipment notes acquired by each Pass Through Trust will be issued directly by the airline (owned aircraft mortgage note) or indirectly via an owner trust related to a leveraged lease agreement under SFAS 13 (leveraged lease mortgage notes) between an airline and an unrelated lessor (the owner) of the aircraft. In either case, there is substantial at risk equity investment in the aircraft held outside the Pass Through Trusts (held by the airline; or in the case of a leveraged lease, the lessor). Equipment notes held in EETC Pass Through Trusts secured by aircraft typically equal only 65% to 80% of the independently appraised value of the aircraft.

As some of the representatives from the above named companies noted in a meeting on August 13, 2002, with Neel Foster, Ed Trott, and Ron Lott, the Exposure Draft requires that a primary beneficiary consolidate all SPEs that lack sufficient independent economic substance. The primary beneficiary is an enterprise that "provides significant financial support to an SPE and benefits from its activities by holding a majority of the variable interests in the SPE or a significant portion of the total variable interests that is significantly more than the variable interest held by any other entity". Following the guidance in the Exposure Draft, an EETC may require consolidation on the financial statements of the bottom tranche investor, as there are no equity-like risks associated with the EETC Pass Through Trusts. All the interests in the Pass Through Trusts are debt-like. All of the equity-like risk is at the airline and where lease-related equipment notes (SFAS 13 leveraged lease) are concerned, at the lessor. With respect to the combined structure taken in its entirety and considering all parties, it is either the airline or the lessor that bears the first risk of loss. Thus, we do not believe that looking to an investor's interests in debt-like investments as a means of identifying the party with implied control and therefore requiring an investor to consolidate a Pass Through Trust (or any SPE) based on such holdings fairly represents an investor's financial position.

As discussed with Mr. Foster, Mr. Trott, and Mr. Lott, we believe that clarification should be provided by the FASB indicating the following:

(1) Equity provided by the lessor or mortgagor would effectively be a guarantee, as alluded to in paragraph 18(i) of the Exposure Draft,
(2) Overcollateralization referred to in paragraph 18(h) of the Exposure Draft can be provided by entities other than the transferor or seller of assets to an SPE,
(3) An SPE's debt that is consolidated by a substantive operating entity should be scoped out of the Exposure Draft, even in the case of multiple investor leveraged leases, and
(4) Pass Through Trusts that are mirror images of the parent SPEs, while technically not consolidated by any entity, but are in effect consolidated by a substantive operating entity (the airline), should be scoped out of the Exposure Draft.

By incorporating the above points into the final rule, the economic substance of EETCs would be considered when identifying the entity with residual risks and rewards of the aircraft and of an SPE.

Determination of the Primary Beneficiary

Majority of Variable Interests

A primary beneficiary is "an enterprise that has a controlling financial interest in an SPE that is established by means other than holdings of voting interests." The Exposure Draft directs an SPE investor/owner to determine whether it is the primary beneficiary by assessing "...whether it has either (1) a majority of the variable interests or (2) a variable interest that is a significant portion of the total variable interest and that is significantly more than the variable interests held by any other individual party."

Paragraph B15 of the Exposure Draft indicates that the Board reasoned that providers of financial support, including the primary beneficiary, would be expected to have risks and rewards that are of the same character as those of an equity investor and effectively the providers of the financial support are in the same position as parents in a parent-subsidiary relationship, except for the mechanism that establishes the relationship. This would seem to imply that variable interest holders have the same control over an SPE as an equity owner would have over a substantive operating entity. Consolidation for any other substantive operating entity is generally based on a level of majority interest and the ability to control the operations of the investee. Therefore, we recommend that the primary beneficiary be identified as the entity holding the majority of variable interests. Identifying a primary beneficiary by determining which entity holds significantly more variable interests than others is too subjective and does not necessarily lead to the entity who ultimately may control the activities of an SPE. If this provision remains in the final rule we believe the Board should provide guidance or examples that would assist in determining when an owner has a variable interest that is significantly more that interests held by any other individual party.

Related Parties with Variable Interests

Additionally, when determining whether an entity is a primary beneficiary, all variable interests, including variable interests held by related parties, must be considered. Specifically, the Exposure Draft indicates that "a party that has a de facto agency relationship with the enterprise as a result of providing significant amounts of professional services or similar business arrangements" is considered a related party. We recommend the final rule provide more guidance on what is meant by "de facto agency relationship" and "professional services or similar business arrangements". For example, it is unclear as to whether an entity that holds variable interests and has a normal manufacturing supplier relationship with another party that also holds variable interests would have to consider the supplier as a related party.

Primary Beneficiary Reassessment at Each Reporting Date

The Exposure Draft states that "an enterprise involved with ... an SPE shall determine at each reporting date whether it is the primary beneficiary of the SPE." Therefore, based on changes in SPE ownership from the sale or purchase of variable interests, a different primary

beneficiary could be identified at each reporting date. This could cause significant fluctuations in the reported financial position of the identified primary beneficiary. In addition, this may cause one entity to be identified as a primary beneficiary and require an SPE to be consolidated on its financial statements merely by the actions of another entity (e.g. its divestiture of variable interests). The actions of one owner do not necessarily result in a change of the relative percentage of variable interests held by another owner. In addition, an owner's level of control or risks and rewards of variable interests do not necessarily change from the actions of another entity.

We recommend that upon the effective date of the final rule or at the initial date of acquiring variable interests in an SPE, an owner perform a primary beneficiary determination. Only if an owner initiates an action or has direct involvement in an action that subsequently changes its percentage of variable interests would a reassessment of the primary beneficiary designation be required.

Sufficient Equity Investment in an SPE

When evaluating an SPE for consolidation based on voting interests, the level of equity investment must permit the SPE to conduct its activities without additional financial support. The Exposure Draft indicates "an equity investment shall be presumed to be insufficient to allow the SPE to finance its activities without relying on financial support from variable interest holders unless the investment is equal to at least 10 percent of the SPE's total assets." The 10 percent presumption is overcome "only if there is persuasive evidence that an equity investment of less than 10 percent of total assets is comparable to the equity of businesses that are not SPEs and that engage in similar transactions with similar risks."

We believe that 10 percent is an acceptable threshold to determine the amount of equity investment sufficient to allow an SPE to finance its activities without relying on financial support from variable interest holders. However, we also believe that there may be multiple ways to overcome the 10 percent equity investment guideline. Further guidance, including examples, in which less than 10 percent equity is appropriate and when more than 10 percent equity may be required should be included in the final rule.

Measurement of SPE Assets and Liabilities

The Exposure Draft states that "individual assets, liabilities, and noncontrolling interests of an SPE that is consolidated ... initially shall be recognized at their fair values." It is unclear in the Exposure Draft on how the primary beneficiary accounts for the assets and liabilities subsequent to consolidation and how would the transaction to deconsolidate the SPE in the event the primary beneficiary changes. We believe the final rule should clarify the accounting to be applied in these circumstances.

Additionally we believe that it would be more appropriate to consolidate an SPE at historical cost. Fair value disclosures would be provided by existing accounting guidance (e.g. SFAS 107 for fair value of financial instruments) to ensure transparency in financial statements.

Determination of Market-Based Fees

According to the Exposure Draft, non-market based fees are considered variable interests and would be considered in the determination of a primary beneficiary. The Exposure Draft states:

> "Because it can be difficult to determine whether a fee (which may include cash and other interests in an SPE) is market based, an enterprise shall presume that its fee from an SPE is not market based unless it can be demonstrated to be comparable to fees in similar observable arm's length transactions or arrangements."

We believe the final rule should indicate that negotiated fees are presumed to be market based unless it is demonstrated that other comparable arm's length transactions or arrangements do not have similar fees. If an SPE has substantive outside investors, the fee will inherently be market based in order to provide the investors with their desired rate of return on the investment an SPE.

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We appreciate your attention to this important topic.

Sincerely,

James A. Bell
Vice President Finance and Corporate Controller
The Boeing Company