Federated Investors, Inc.

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**Federated** 

Letter of Comment No: 28 File Reference: 1082-200

Date Received: 08/28/03

WORLD-CLASS INVESTMENT MANAGER

August 28, 2002

Director of Major Projects and Technical Activities File Reference No. 1082-200 Financial Accounting Standards Board of the Financial Accounting Foundation 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. 1082-200

Exposure Draft on Consolidation of Certain Special-Purpose Entities, a Proposed

Interpretation of ARB No. 51

## Dear Director:

Re:

Federated Investors, Inc. (Federated) appreciates this opportunity to comment on the exposure draft on the consolidation of SPEs. Federated is one of the largest investment managers in the United States, managing \$185 billion in assets as of June 30, 2002. Federated supports the FASB's objective of improving the financial reporting by enterprises involved with SPEs as well as the FASB's belief that a business enterprise which has a controlling financial interest in an SPE should consolidate the assets, liabilities and results of the SPEs activities with those of the enterprise. Obtaining these objectives will advance the effort to provide investors with a realistic view of a company's true financial condition and results of operations.

Federated is the manager of three collateralized debt obligations (CDO's) with total assets of \$1.1 billion. It is common for collateral managers to purchase a portion of the equity or subordinated debt tranches of the CDO to demonstrate an alignment of interests with the other investors in these products. As such, Federated had made investments of between 0.5% and 3% of the total assets in each CDO, representing a minority of the equity interest in two CDO's and a minority of the mezzanine debt in one CDO. Federated's only obligation to the CDO's is to manage the collateral for which we earn a management fee. Federated does not in any way have financial control of the assets nor an obligation for the liabilities of the CDO's.

It is our understanding that the current provisions of the exposure draft may require Federated to consolidate the \$1.1 billion of assets and liabilities of the CDO's, tripling Federated's balance sheet, as a result of our management of and investment in these products. It may also require that Federated include the operating activities of the CDO's in our statement of income. It is our belief that such a presentation of Federated's financial statements would be the antithesis of what the FASB is striving to obtain, improved financial reporting. The resulting financial statements would no longer be representative of Federated's true financial condition and results of

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operations, as they would imply that Federated has some control of the assets and obligation for the liabilities of the CDO's as well as the claim to the operations of the CDO's. As a result, Federated would be forced to choose to no longer participate in the management of CDO's as they are currently structured. It is our belief that most asset managers will make the same decision, potentially impacting the CDO market negatively.

In cases like ours, we believe that the current exposure draft may result in the consolidation of SPEs for which the consolidating enterprise has no claim to the assets or obligation of the liabilities. It is our opinion that in these cases, consolidation is inappropriate and misleading. Disclosure of the use of the SPE could be more appropriately discussed in the footnotes of the enterprise.

Federated supports the comments of The American Securitization Forum and The Asset Managers Forum, as they relate to CDOs, which explains the issues in a more detailed manner.

We appreciate the opportunity to comment on the exposure draft. Please feel free to contact us at 412-288-7712 if you have any questions about this comment letter.

Sincerely.

Thomas R. Donahue

Chief Financial Officer

Denis McAuley III

Principal Accounting Officer

Richard A. Novak

Vice President and Controller

Federated Investors Management Company