

Aon Service Corporation 200 East Randolph - Floor 5 Chicago, Illinois 60601 Phone: 312-381-1000 A Division of Aon Corporation Letter of Comment No: 27 File Reference: 1200-001 Date Received: 07/31/03

July 31, 2003

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Delivered via e-mail to director@fasb.org

To the Members of the Board:

We have reviewed the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of June 10, 2003, Proposed Statement of Financial Accounting Standards *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, an amendment of FASB Statement No. 140, and appreciate the opportunity to present our views.

The original intent of Statement No. 140 was to permit the holding of passive financial assets. LP interests are clearly passive in nature because all decisions as to investments made and harvested reside with the General Partner, not the LP. Individually, the LPs have no control and little or no influence over either the timing of investment or sale or distribution of investments. In order to be a QSPE, to the extent the LP is distributed securities and not cash a QSPE structure must have a predetermined decision processes to remove all aspects of control or influence. All other aspects of control that arise because of voting rights must also have been surrendered in the predetermined process.

We disagree with the Board's decision to prohibit a QSPE from holding equity interests. Gains and losses flow through other comprehensive income only to the extent losses do not create other than temporary impairment of the beneficial interests issued. In addition, a company does not have control of these assets under the equity method.

Paragraph 13 of the ED states that a formerly qualifying SPE that fails to meet one or more of the conditions for being a QSPE as amended by this Statement shall continue to be considered a QSPE if it maintains its qualifying status under previous accounting standards, does not issue new beneficial interests after the effective date, and does not receive assets other than those it was committed to receive under arrangements made before the effective date of the Statement.



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We disagree with the position that if a QSPE issues beneficial interests after the effective date, the QSPE is automatically disqualified and is not eligible for the exceptions in paragraph 40 of Statement No. 140. A QSPE that only issues new beneficial interests based on LP interests it will receive under partnership contracts that existed at the time of transfer, are defined in amount and timing, and are controlled by the general partner, not the LP owner, should continue to qualify as a QSPE under Statement No. 140. In Aon's case, cash inflows to the QSPE and existing beneficial holders are not changed or enhanced. Rather, the QSPE receives a new LP interest as contemplated from the original date of transfer. There are no control issues, as this type of activity was determined by the LP contract and there is no replacement or repledging of assets. We believe that, at a minimum, a QSPE should continue to be grandfathered if the additional beneficial interests to be issued were committed to upon the initial transfer and are less than 30% of the originally committed value at the adoption date.

In conclusion, we strongly recommend that the Board reconsider its prohibition of a QSPE holding equity interests and to grandfather existing QSPE from being prohibited from issuing additional beneficial interests in circumstances where the additional beneficial interests were committed upon the initial transfer, and whose ultimate timing is outside the control of the transferor.

We would like to thank the Board for its consideration.

Sincerely,

Joseph J. Prochaska, Jr. Senior Vice President & Controller