

May 27, 2003

Mr. Lawrence Smith
Director TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Smith:

BDO Seidman, LLP is pleased to offer comments on the six Proposed FASB Staff Positions (FSP) relating to FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.

Overall Comments

We commend the FASB staff for responding so quickly to clarify issues that have arisen in the initial application of Interpretation 46. We hope the staff will continue to be proactive in responding to questions about the Interpretation.

Editorially, we recommend that every Answer begin with "yes" or "no," except for the FSP on treatment of fees paid to decision makers. Starting the answer in this way would be more reader friendly, by immediately framing the discussion for the reader.

Specific Comments

Not-for-profit organizations. It is helpful for the staff to clarify the Board's intent regarding scope. We believe the FSP should be expanded to explain the Board's intent about the accounting by not-for-profit organizations that are excluded from the scope of Interpretation 46. Our understanding is that the Board intended to preserve the status quo for not-for-profit organizations, so that they would continue to analogize to the pre-Interpretation 46 EITF guidance on SPEs when appropriate. As the staff knows, some have interpreted Appendix D of Interpretation 46 to mean that the EITF guidance on SPEs no longer exists and should not be applied by analogy. Clarifying the Board's intent would prevent the emergence of diversity in practice.

We believe the model here is the status of EITF guidance related to APB Opinion Nos. 16 and 17. FASB Statement Nos. 141 and 142 superseded Opinions 16 and 17 and the related EITF guidance for business enterprises. Not-for-profit organizations continue to

apply Opinions 16 and 17 by analogy and, as a result, still apply the related EITF guidance. Because Interpretation 46 supersedes the EITF guidance on SPEs only for business enterprises, not-for-profit organizations should continue to apply the EITF guidance by analogy.

Treatment of fees paid to decision makers. This FSP is helpful in explaining the rationale for the treatment of fees to decision makers. It would be clearer if it contained an example of the computation of expected losses and expected residual returns of a variable interest entity with a structure that includes fees. The example in Appendix A of Interpretation 46 could be modified to include fees for purposes of this illustration.

Reporting variable interests in specified assets. The final sentence of the first paragraph of the Answer, in particular the phrase "without accounting allocations," is not clear. We would replace that sentence with something along the following lines:

Stated differently, a separate variable interest entity is deemed to exist for accounting purposes only if every asset, every liability, and all of the equity of the deemed entity are separate from the overall entity and specifically identifiable. If the separate and specifically identifiable assets, liabilities, and equity do not constitute a complete statement of financial position, because the total assets do not equal the sum of liabilities and equity, then no separate entity is deemed to exist for financial accounting purposes.

Transition requirements. We suggest rewording the beginning of the second paragraph of the answer as follows: "However, if at transition it is not practicable for an enterprise to obtain the information necessary to make the determination...." Paragraph 15 of FASB Statement No. 107 defines *practicable*.

Calculation of expected losses. We suggest rewording the first sentence of the answer as follows: "Yes, even an entity that expects to be profitable will have expected losses."

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP