

D E E R F I E L D  
CAPITAL MANAGEMENT LLC

October 1, 2003

Director, TA&I-FSP  
File Reference No. FIN46-c  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

RE: File Reference No. FIN 46-d  
Proposed FSP on the Treatment of fees Paid to Decision Makers and Guarantors  
as Described in Paragraph 8 in determining Expected Losses and Expected  
Residual Returns of a Variable Interest Entity under FASB Interpretation No. 46,  
*Consolidation of Variable Interest Entities*

Deerfield Capital Management LLC (Deerfield) is a Chicago-based institutional investment advisor focused on the management of Collateralized Debt Obligations (CDOs) and hedge funds. We are a SEC-registered investment advisor as well as a commodity pool operator and trading advisor registered with the CFTC. We are pleased to have the opportunity to respond to the above referenced Proposed FSP, as it will have a significant impact on our business and the investing community.

We have a strong understanding of the complexities involved with accounting for activities conducted through Variable Interest Entities (VIEs) and fully support the Board's objective of improving financial reporting by enterprises involved with these structures. We currently serve as collateral manager for approximately \$7 billion of CDO assets and our views are concentrated on the potential impact to the CDO industry.

FIN 46-d addresses the treatment of fees paid to decision makers and Guarantors in calculating expected losses and expected residual returns of a variable interest entity (VIE). We have commented on the determination of the decision maker and the inclusion of those fees in the expected residual returns in our response to FIN 46-c. We feel that including the fair value of the decision maker's fees in the calculation of expected residual returns can in certain circumstances unjustly skew the results to the collateral manager having a majority of the residual returns, as defined, and refer you to our comment letter on FIN 46-c dated, October 1, 2003. We will limit our comments here solely to the proposed mathematical calculations contained in FIN 46-d.

Proposed FSP on Interpretation 46 (FSP FIN 46-d)

Comment Letter No. 3

FIN 46-d states, "For the purpose of calculating an entity's expected losses and expected residual returns, the expected variability in the entity's net income or loss is determined based on the various estimates of net income or loss available to, or absorbed by, the variable interest holders. Therefore, paragraph 8 fees that are reported as an expense in determining the net income or loss of a variable interest entity, should be added back to the estimated of net income or loss used in developing the estimates of net income or loss available to, or absorbed by, the variable interest holders." We do not understand the rationale for this suggested treatment of the fees. The fees are a contractual expense of the CDO and will ultimately be absorbed by the variable interest holders. If you add the fees back to net income and adjust the estimated cash flows accordingly then everyone is getting allocated a fictitious cash flow number, gross of fees. If the decision maker also owns other beneficial interests (equity), then in allocating the residual returns, the fees are included in the initial allocation of the grossed-up estimated cash flows as well as the allocation of the fair value of the fees which results in some double-counting of the fees.

We found the illustrations provided in Tables 5 and 6 to demonstrate how to allocate the expected losses and residual returns to the variable interests very confusing. The exercise is complicated due to the adding back of the fees in step one (above) and trying to compensate for that in the allocation methodology. The rationale for how the expected losses and residual returns are allocated is not clear which makes the end result difficult to understand.

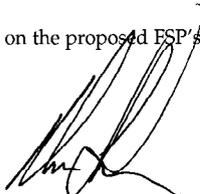
We suggest that a simpler approach be considered. The calculation of the expected losses and expected residual returns should include the first two components listed in the proposal: (a) the expected variability in the entity's net income or loss (without adjusting for fees) and (b) the expected variability in the fair value of the entity's assets if it is not included in net income or loss. These two components represent a feasible estimate of the actual net income or loss that will be available to, or absorbed by, the variable interest holders. The resulting expected losses and residual returns should be allocated to the beneficial interest holders according to their ownership percentages or rights to those cash flows. Then the fair value of the fees to the decision maker and or guarantors can be added on as additional components of the total residual returns, which would be allocated entirely to the appropriate parties. The end result is closer to reality and is not as complicated as the proposed example. However, we feel the larger question remains as to defining what circumstances should be present in order to require the fees to be considered in this analysis.

We thank the Staff for the opportunity to comment on the proposed ESP's and certainly appreciate the complexity of this project.

Sincerely,



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Deerfield Capital Management



Marvin Shrear  
Chief Financial Officer  
Deerfield Capital Management