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VIA Electronic Mail

July 1, 2002

Ms. Suzanne Bielstein
Director, Major Projects & Technical Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 27
File Reference: 1100-163
Date Received: 7/1/02

Re: File 100-163

Dear Ms. Bielstein:

The members of the Mortgage Bankers Association of America (MBA) appreciate the opportunity to share their comments with you on the FASB Exposure Draft, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (the ED). The guidance in the ED would amend the guidance in Statement 133 in several key respects, including revising the "net investment" characteristic of a derivative and the applicability of the scope exception in paragraph 14 to beneficial interests, including interests retained by a transferor. Our members have mixed views on two specific aspects of the guidance in the ED, as explained below.

MBA Position

First and foremost, our members wholeheartedly support the incorporation of Implementation Issue No. C13, *When a Loan Commitment is Included in the Scope of Statement 133*, into Statement 133. As expressed many times before, MBA believes the guidance in Issue No. C13 greatly clarifies the accounting for loan commitments and improves the accuracy of lenders' financial reporting. We, therefore, endorse its incorporation into Statement 133.

On the other hand, our members oppose the proposed change in the treatment of beneficial interests, as described in proposed new paragraph 58.d, *Beneficial interests issued in securitization transactions*, which elaborates on the scope exception for beneficial interests in paragraph 14 of Statement 133. Under proposed paragraph 58.d, beneficial interest holders, including transferors that hold retained interests in securitized financial assets, will be required to determine if their interests meet the scope exception in paragraph 14. If not, those interests shall be evaluated to determine if they should be accounted for as freestanding derivatives or host contracts with embedded derivatives.

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Our members oppose the proposed change in the treatment of beneficial interests because we believe the costs of its application will far outweigh any benefits to readers of beneficial interest holders' financial statements. In the Response to the issues raised in Statement 133 Implementation Issue D1, *Recognition and Measurement of Derivatives: Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*, [which were resolved later in Issue D2 which would be superseded by the guidance in the ED], the FASB staff observed:

"Because paragraphs 14 and 233 of Statement 125 require the majority of beneficial interests for which the various differing views on the application of Statement 133 are relevant to be measured like investments in securities classified as either available-for-sale or trading, the staff believes that the primary issue ultimately focuses on whether changes in the fair value of those interests can continue to be recorded in other comprehensive income or must be recorded in earnings."

In our estimation, the cost of implementing the guidance in the ED would far outweigh its benefits to users of financial statements if the primary effect of the guidance (as suggested by the above excerpt) would be to require changes in the fair values of *only some* beneficial interests to be reported in earnings as opposed to OCI. In essence, we find it hard to believe that the current accounting for beneficial interests is sufficiently incorrect or misleading to necessitate the additional reporting burden that the ED would impose on preparers of financial statements. In fact, we suspect that the proposed change could hurt, more than help, the understandability and comparability of many beneficial interest holders' financial statements.

Conclusion

We strongly support the incorporation of Implementation Issue No. C13 into Statement 133. However, we strongly oppose the guidance in proposed new paragraph 58.d. which would require holders of beneficial interests in securitized financial assets to analyze the interests to determine: (1) if the scope exception in paragraph 14 of FAS 133 applies; and if not (2) if the interests should be accounted for as derivatives or host contracts with embedded derivatives. We believe this requirement would impose a heavy burden on beneficial interest holders in return for very limited, if any, additional benefit to users of financial statements.

MBA appreciates the opportunity to comment on important accounting matters. If you should have any questions about our comments, please do not hesitate to contact me at 202/557-2864.

Sincerely,

Alison B. Utermohlen