





Ms. Leslie Seidman Board Member Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856

RE: Proposed Staff Position (FSP) No. FAS 140-d, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions."

Dear Ms. Seidman

The Financial Institutions Accounting Committee (FIAC) is a group of fifteen financial professionals working in executive level positions in the banking and thrift industries and is a standing committee of the Financial Managers Society. FIAC's primary responsibility is to evaluate those accounting and regulatory matters impacting financial institutions. The comments within this letter are representative of FIAC as a whole and do not necessarily reflect views of the individual institutions represented on the Committee.

We would like share our views regarding the recently issued exposure draft of the proposed FASB Staff Position (FSP) No. FAS 140-d, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions."

General Comments

While we support the Board's effort to clarify the accounting for such transactions under FASB Statement No. 140 (FAS 140), Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, we would like to note that our understanding is that current industry practice is uniform in the accounting for such transactions separately, as (1) a sale of securities and (2) a secured financing.

By analogy, this transaction is not unlike transactions observed in other industries for non-financial assets (e.g., car sales or sales of retail merchandise) in which a financing subsidiary of the seller provides financing to the buyer for the item purchased. In those cases, the sale and financing are considered to be separate transactions.

In the case of financial assets, the financing generally is provided by the transferor to facilitate the transfer and make its execution more convenient and efficient for the transferee (i.e., one-stop shopping) rather than being part of a combined transfer and financing transaction.

As the Board has decided to evaluate whether to amend paragraph 9.b of FAS 140 to eliminate the exemption for qualifying special purpose entities (QSPEs), we believe that the Board should consider whether the guidance in the proposed FSP should be deferred until the evaluation of paragraph 9.b is completed.

A decision by the Board to eliminate QSPEs could have a significant impact on many of the transactions that would fall under the scope of the proposed FSP. If the initial securitization did not qualify as a sale, there would be no sale accounting involved in the transfer of the securities to investors. Consequently, the benefit of implementing guidance now that is likely to be affected by an amendment to Statement 140 next year would seem to be diminished and would not outweigh the costs and disruption to current practice.

Specific Comments

1. Are the criteria in paragraph 7 of this proposed FSP operational and do they appropriately identify those transactions that should be accounted for separately?

While we believe that most of the criteria in paragraph 7 would be appropriate for identifying those transactions that should be accounted for separately, we do have concerns about two of them.

While we agree that an arrangement involving contractually contingent transactions would be an indication of linkage, we are concerned that the guidance regarding "implied commitments" in paragraph 7.a could be too narrowly interpreted by regulators or auditors and that narrow interpretation imposed upon preparers.

For example, a transferee might decide to obtain financing from the transferor to fund its purchase because the transferor can provide such financing more efficiently or effectively or simply offers convenient and competitive market pricing. Even though the transferee could obtain such financing from another source, it might find it more convenient or operationally easier to procure the financing from the transferor. The transferor might be able to provide a very competitive price because of its familiarity with the security being transferred and the market for such securities or because it is an efficient or high volume dealer in such securities. In either case, the transferee might request a commitment from the transferor to provide financing for the acquisition of the securities. In such cases, regulators and auditors (who tend to have more conservative views in the absence of specific guidance) could conclude that there is an "implied commitment" that would require linkage even though the financing actually represents a separately evaluated and market priced transaction.

As such, we believe that the reference to "implied commitments" should be removed from paragraph 7.a of the proposed FSP.

Paragraph 7.c states that "the financial asset subject to the initial transfer and repurchase financing has a quoted price in an active market (Level 1 inputs as defined in FASB Statement No. 157, Fair Value Measurements)." We believe that a quoted price in an active market is not a good indicator of whether a transfer and a financing should be accounted for as a linked transaction. Many financial assets are sufficiently liquid but would not necessarily qualify for a Level 1 fair value measurement under Statement 157. For example, asset-backed securities and (until very recently) many mortgage-backed securities fall into that category.

While the transfer and secured financing of a highly illiquid financial asset (e.g., a Level 3 fair value measurement) might be an indication of a linked transaction, we believe that a Level 1 fair value measurement requirement is too restrictive and would not represent a good or fair indication of whether such transactions should be deemed related.

2. What costs would be incurred to implement this proposed FSP?

We believe that there is one aspect of the proposed FSP that would make it very costly to implement and would significantly outweigh the benefits. Paragraph 4 of the proposed FSP states that "the lapse of time between the initial transfer and the repurchase agreement is not relevant when determining if the transaction is a repurchase financing within the scope of this FSP." We have concerns about the cost of applying that requirement and the related benefits.

Such a requirement effectively would discourage a transferor from ever providing secured financing when the collateral involves securities that previously were sold to the counterparty, even if that financing occurred several months or years after the initial transfer.

The operational difficulty and cost of tracking every security sold to every customer would be substantial and provide very little benefit. While we can see how a secured financing of a previously sold security shortly after the sale (e.g., less than 30 days) might be an indication that the two transactions are linked, there should be some time limit after which a secured financing collateralized by a previously transferred security would be considered a separate transaction.

We believe that a requirement to track every security sold and potentially having to unwind past sales even several months or years later would provide no meaningful information to users of financial statements and would not properly reflect the substance of such transactions.

3. What procedures, controls, and systems are required to implement this proposed FSP? Can such procedures, controls, and systems be in place by the proposed effective date – the beginning of the first fiscal year after November 15, 2007? If not, when can the procedures, controls, and systems be in place to implement this proposed FSP?

As we noted in our comments to Question 2 above, a requirement to track all sales of all securities to all customers for the lives of those securities would be an onerous task and

would require significant systems development, procedures, and controls to ensure that any subsequent financing activity was properly matched to those previous sales. With all of the current work being done already to prepare for the implementation of FASB Statements Nos. 157 and 159, we are concerned that companies will not have enough time to prepare for the implementation of this proposed FSP if it was effective January 1, 2008.

As resource constraints for each company differ, it is difficult to provide a good estimate of when companies might be ready to implement this proposed guidance. Nevertheless, giving consideration to the implementation of Statements 157 and 159 in the first quarter of next year, we believe that this guidance should not be effective until at least July 1, 2008 for calendar year companies. We also believe that such a delay would allow the Board to make significant progress on its consideration of amending paragraph 9.b of Statement 140 to eliminate the exemption for QSPEs, which could impact significantly the applicability of this guidance in the future.

Conclusion

In general, we are concerned with the heavy burdens and demands being placed on companies, particularly financial institutions to keep up with the rapid pace of change and complexity in accounting standards for transactions that involve financial instruments.

Rather than impose another burdensome change that very likely will be temporary for a relatively short period of time, we urge the Board to consider deferring the guidance in the proposed FSP until it completes its consideration of paragraph 9.b of Statement 140. Current industry practice with regards to the types of transactions covered by the proposed FSP is uniform and not controversial. That practice also is no more questionable than many of the other outstanding practices that exist related to servicer discretion and other aspects of sale accounting under Statement 140.

If the Board does decide to issue this proposed guidance, we hope that the Board will consider our comments regarding certain aspects of that guidance that we believe should be revised or eliminated.

We appreciate this opportunity to share our views on the proposed FSP No. FAS 140-d and look forward to discussing those views in more detail on September 28th.

Sincerely,

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William C. Nunan

FIAC Chair

CC: Ron Lott