December 7, 2012

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference EITF-12G, *Consolidation (Topic 810), Accounting for the Difference Between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Financing Entity*

Dear Ms. Cosper:

The Mortgage Bankers Association[1] (MBA) appreciates the opportunity to comment on FASB's exposure draft *Accounting for the Difference Between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Financing Entity* (Proposed Update). The following are MBA's general comments and responses to FASB's specific questions.

Background

FASB Topic 810 requires a reporting entity to consolidate the assets and liabilities of a variable interest entity (VIE), like a securitization trust, if it is deemed to be the primary beneficiary of the VIE. The primary beneficiary is the entity that has both a significant variable interest in the trust and has power to direct those activities that may have a significant influence over the economic performance of the VIE. A VIE that holds debt instruments, issues beneficial interests in those financial assets and has no equity is

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

called a consolidated financing entity (CFE). Some reporting entities report the assets and liabilities of a CFE in their consolidated financial statements at fair value. Diversity in practice has emerged on whether to value separately assets and liabilities or to value the net position.

The Proposed Update would require that a reporting entity that reports a CFE at fair value to determine the fair value of the CFE's financial assets and financial liabilities consistently with how market participants would price the reporting entity's net risk exposure at the measurement date.

General Comments

Proposed Valuation Reflects Substance of Being Primary Beneficiary

MBA has long held the view that it makes little sense for a reporting entity to reflect in its consolidated balance sheet assets it does not own and liabilities it does not owe. We have recommended in the past that the reporting entity should show such assets and liabilities in linked presentation on one side of the balance sheet. However, FASB did not move in this direction. MBA believes that at least recognizing the linked nature of the VIE's assets and liabilities by valuing the net position at fair value is a step in the right direction.

Should Result in the Valuation of Variable Interest Held

Since the consolidating entity neither owns the VIE's assets nor owes its liabilities, we believe market participants would tend to value the net value as the fair value of the reporting entity's variable interest in the VIE. However, allocating that value to the respective assets and liabilities "on a reasonable and consistent basis" will prove somewhat arbitrary since the assets of the VIE are not owned and the liabilities are not owed by the consolidating entity.

Responses to Specific Questions

Question 1: Do you agree that a reporting entity should measure the fair value of a collateralized financing entity's financial assets and financial liabilities consistently with how market participants would price the reporting entity's net risk exposure (that is, how a market participant measures the retained beneficial interest held by the reporting entity) at the measurement date?

MBA's Response: MBA agrees that for those electing to carry CFE's assets and liabilities at fair value, measuring fair value of the net risk exposure makes sense especially since the CFE's assets are owned and the liabilities are owed by the CFE but not by the consolidating entity.

Question 2: Do you agree that the scope of the amendments in this proposed Update should apply to all entities that are required to consolidate a collateralized financing entity, as defined, and are required to or have elected, under Topic 825, to measure all eligible financial assets and financial liabilities of the collateralized financing entity at fair value?

MBA's Response: MBA agrees that the Proposed Update should apply only to those reporting entities that carry a CFE's assets and liabilities at fair value.

Question 3: Do you believe that current U.S. GAAP provides guidance for reporting entities about how to account for any differences between the carrying amount of the financial assets and the carrying amount of the financial liabilities of a consolidated collateralized financing entity that is not within the scope of this proposed Update? If not, please explain why.

MBA's Response: MBA notes that Topic 810 has been in effect for several years, and there appear to be inconsistencies in practice only with respect to reporting entities accounting for such assets and liabilities at fair value not amortized cost. MBA believes that current U.S. GAAP provides appropriate guidance for assets and liabilities of VIE's that the consolidating entity elects to hold at amortized cost.

Question 4: Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively? If not, please explain why.

MBA's Response: The operational difficulties and cost of retrospective application to the preparer would exceed the benefit to users of financial statements. Likewise, the use of a modified retrospective approach would likely result in confusion to users of financial statements. MBA recommends that the transition rules should be for a cumulative effect adjustment at the beginning of the period of adoption and prospective application thereafter.

Question 5: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

MBA's Response: Early adoption should be permitted.

Question 6: Is the guidance in paragraphs 820-10-35-18D and 820-10-35-18F difficult to apply to collateralized financing entities, as defined? If so, what additional information would be useful in applying the guidance in this proposed Update?

MBA's Response: MBA can't think of any additional information that would be useful in applying the guidance in this proposed Update.

Question 7: The proposed amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.

MBA's Response: Application should be consistent among all reporting entities.

Question 8: For preparers, how much time would be needed to implement the proposed amendments?

MBA's Response: MBA believes that a minimum of 12 months should be allowed to implement the proposed amendments.

Question 9: For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?

MBA's Response: If the transition rules call for a cumulative effect adjustment not retroactive restatement, the preparers of financial statements should not incur significant costs.

MBA appreciates the opportunity to share its observations with you. Any questions about the information provided herein should be directed to Jim Gross, Vice President Financial Accounting and Public Policy and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,

David H. Stevens
President and Chief Executive Officer