October 10, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Via E-Mail to director@fasc.org

Re: File Reference 1225-001

Grant Thornton LLP appreciates the opportunity to comment on the Financial Accounting Standards Board ("the Board" or "FASB") Exposure Draft of the Proposed Statement of Financial Accounting Standards, Accounting for Transfers of Financial Assets (the "Exposure Draft" or "Proposed Statement"). We support the Board's commitment to improvement of the quality of financial reporting in accounting for transfers of financial assets and have set forth specific recommendations to further assist FASB toward achieving this goal.

Our comments that follow are organized to correspond with the items noted in the Summary and paragraph 2 in the Exposure Draft.

c. We agree with the definition of participating interest and the requirement that sale accounting cannot be achieved in a transfer of a participating interest unless the participating interest retained and the participating interest transferred have proportionate ownership rights.

d. We agree with the Board's conclusion that unless a transfer of a financial asset meets the conditions for a participating interest the entire financial asset must be transferred to a qualifying SPE or another entity not consolidated with the transferor to achieve sale accounting. We believe that this is consistent with the financial components approach.

f. We support the decision to initially measure a transferor's beneficial interest at fair value. This is consistent with the other proposed changes in the Standard whereby a beneficial interest is only created upon a transfer of an entire financial asset. We believe that this is consistent with the financial components approach and the conclusion that the beneficial interest is a new asset rather than a continuing interest in the same asset. We do have a concern, however, that a transfer of
financial assets that is accounted for as a sale in which the transferor holds a significant portion of the beneficial interests will potentially result in recognition of a gain on beneficial interest that are held. For this reason we believe that the Board should also reconsider the conditions in paragraph 36 for a qualifying SPE to be demonstrably distinct from the transferor. We do not believe that ownership by third parties of merely 10 percent of the fair value of the beneficial interests of such an entity is sufficient for the entity to be demonstrably distinct from the transferor.

g. We agree with the requirement that for an SPE with the ability to rollover beneficial interests to be a qualifying SPE a party (including a transferor) that has more than one type of involvement in the SPE must not have the opportunity to obtain a more-than-trivial incremental benefit by virtue of having more than one type of involvement with the qualifying SPE. We also believe that it should be clear that any type of involvement by the transferor or other party be significantly limited and entirely specified in legal documents establishing the qualifying SPE. Paragraphs 45A (a), (b) and (c) describe types of involvement that a party (including a transferor) might have in a qualifying SPE that permits rollovers of beneficial interests so long as the party does not have the opportunity to obtain a more-than-trivial incremental benefit by virtue of having more than one type of involvement with the qualifying SPE. Paragraph 45A (c) states that the rights and obligations described in the paragraph must also meet the requirements of paragraph 35(b) which requires that the qualifying SPE’s permitted activities be significantly limited and entirely specified in legal documents establishing the qualifying SPE. We believe that this should be made clear in paragraphs 45A(a), 45A(b) and 45A(c). If it is not the intention of the Board that types of involvement discussed in these paragraphs be significantly limited and entirely specified in legal documents that establish the SPE we would not agree with the provisions of paragraph 45A because we believe that involvement that is not significantly limited and entirely specified in legal documents that establish the SPE is inconsistent with the surrender of control. We believe that the Board should provide further guidance as to types of activities that, if specified in legal documents establishing a SPE, would be significantly limited and those that would not be significantly limited.

Although not noted in the Summary or paragraph 2, we support the Board’s decision to reconsider the requirement in paragraph 35(c)(2) and paragraph 40 that a qualifying SPE only hold derivative financial instruments that pertain to beneficial interests issued or sold to parties other than the transferor. We believe that the proposed changes in Proposed Statement of Financial Accounting Standards, *Accounting for Certain Hybrid Financial Instruments* related to a beneficial interests in securitized financial assets, along with the requirement in this Exposure Draft that a transferor’s beneficial interests be initially measured at fair value negate the need for a requirement that a qualifying SPE only hold passive derivative financial instruments that pertain to beneficial interests issued or sold to parties other than the transferor.

We have additional comments with respect to specific paragraphs as follows:

It would appear that paragraph 9(d) should be inserted at the end of paragraph 9(a) since paragraph 9(d) only deals with isolation from the transferor.
Paragraph 27B includes an example in which a transferor might have a reasonable basis to conclude that a legal opinion would not be required if the transferor had experience with other transfers with the same facts and circumstances. We do not believe that this is an appropriate example of when a legal opinion might not be required to support a conclusion that transferred assets have been isolated from the transferor. It is unlikely that a transferor would have past experience in bankruptcy or other receivership. We suggest including an example in which the transferor has no continuing involvement with the transferred assets or the transferor has obtained a legal opinion for other recent transfers with the same facts and circumstances and the transferor can conclude that there have been no subsequent changes in relevant laws or regulations.

Paragraphs 35(c)(1) and 41 now state that a qualifying SPE may not hold equity instruments. We suggest adding “or financial assets that are convertible, by their terms, into equity instruments.” Paragraph 41 states that the term equity instruments includes equity securities as defined in Statement 115. The definition of equity securities in Statement 115 excludes convertible debt and convertible preferred stock that is redeemable. Some might conclude by inference that convertible debt and convertible preferred stock would not be considered equity instruments for purposes of paragraphs 35(c)(1) and 41.

Paragraph 45A states that a party (including a transferor) might have more than one type of involvement in a qualifying SPE that permits rollovers of beneficial interests so long as the party does not have the opportunity to obtain a more-than-trivial incremental benefit by virtue of having more than one type of involvement with the qualifying SPE. Consistent with the concerns discussed in paragraph A30 of the Background Information, Basis for Conclusions, and Alternative Views, we believe that certain combinations of involvement by the transferor or another party can establish effective control even though, individually, each type of involvement might not establish such control. For this reason we believe that the Board should consider whether the requirements of paragraph 45A should pertain to all qualifying SPE’s and not just to those that permit rollovers of beneficial interests.

Conclusion

We appreciate the opportunity to comment on these critical matters and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact Mark Scoles, Partner, Accounting Principles Group at (312) 602-8780.

Very truly yours,

/s/ Grant Thornton LLP