Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Current Board Projects on FAS 140 and FIN 46(R)

Ladies and Gentlemen:

The American Securitization Forum and the Securities Industry and Financial Markets Association have followed closely the Board’s recent deliberations relating to Statement 140 and Interpretation 46(R). We are writing at this time to register serious concerns about these projects, based on public Board deliberations and information on the Board’s web site.

We recognize that the Board and other policy makers believe that speedy and decisive actions are necessary in response to the recent credit crisis and related events. We fear, however, that the Board’s current course of action may have serious unintended consequences.

In particular, we do not believe that a year-end 2008 deadline is a necessary response to current market conditions. The risks of too much haste are high:

- To the extent that accounting standards changes result in the abrupt consolidation of securitization special-purpose entities (SPEs), this outcome is likely to swell the balance sheets of the affected entities, impairing financial ratios and financial covenant performance and regulatory capital tests.
- Without time to consider the appropriate regulatory and rating agency response to such changes in accounting:

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1 The American Securitization Forum (the “ASF”) is a broadly-based professional forum of participants in the U.S. securitization market. Among other roles, the ASF members act as issuers, underwriters, dealers, investors, servicers and professional advisors working on securitization transactions. This comment letter was developed principally in consultation with the ASF’s Accounting Committee, with input from other ASF members, subforums and committees. More information about the ASF, the Accounting Committee and their respective members and activities may be found at the ASF’s internet website, located at www.americansecuritization.com.

2 The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.
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- regulated entities will face capital constraints;
- both regulated and unregulated entities will face substantial challenges (and their capital raising efforts will be complicated) by explaining the dramatic changes in their financial statements to investors and lenders; and
- in some cases, regulated and unregulated entities will be further burdened by the need to seek waivers for financial covenant breaches triggered by accounting changes in an environment where lenders may be unresponsive to these requests.

- Policy changes without international convergence will prolong the drain on the Board’s and constituents’ time, as further changes to derecognition and consolidation policies are virtually certain to result from the convergence process.

A more measured and realistic but still aggressive deadline (such as January 1, 2010) that permits full deliberation of policy alternatives, time for possible field testing of the proposal so that the Board and constituents can fully gauge the outcome of the proposal, and a public comment period commensurate with the importance of the changes under consideration will be better for accounting policy, the economy and the markets in both the short and long term. In the interim, our organizations support the supplemental disclosures recommended by various bodies in response to the recent market disruptions, which many reporting entities have begun to provide.

As further support for the concerns and recommendations outlined above, we note that the Board has reached tentative decisions in its fast-tracked deliberations on Statement 140 and Interpretation 46(R) that would bring sweeping changes to securitization accounting:

- Banks, finance companies and other entities (including possibly the GSEs) that currently do not consolidate the issuing entities used in securitizations may be required to consolidate some or all of those entities. The affected transactions may include many garden variety transactions (such as mortgage loan, credit card, student loan and retail auto loan securitizations), many of which were not a contributing factor to the current credit crisis.

- These changes affect large markets that provide substantial funding for U.S. business and consumers. As of December 31, 2007, the aggregate outstanding balance of potentially affected transactions included:
  - $7,210.3 billion mortgage-related securities;  
  - $2,472.4 billion other asset-backed securities (excluding asset-backed commercial paper); and
  - $816.3 billion asset-backed commercial paper.

3 The source of the market size data in this letter is SIFMA.
4 This included $585.6 billion backed by home equity loans, $347.8 billion backed by credit card loans, $243.9 billion backed by student loans, $198.5 billion backed by automobile loans, $46.2 billion backed by equipment leases, $26.9 billion backed by manufactured housing and $1,023.5 billion backed by miscellaneous other receivables. The $1,023.5 billion miscellaneous category includes collateralized debt obligations (CDOs) and numerous smaller asset classes. The assets underlying the CDOs include other asset-backed securities (CDOs of ABS), some or all of which might be viewed as double counting with other ABS outstandings. The available data do not permit us to determine the amount of any such double counting.
We cannot presently estimate which or how many of these transactions would be affected by the proposed changes, but consolidation of even a significant fraction would be a momentous change.

While many of our members believe that changes in disclosure and/or financial reporting by securitizers are needed, we believe that it is essential that the Board take the time necessary to produce a standard which will result in an improvement to the accounting in this area, rather than merely produce a change for the sake of change.

The Board has had multiple projects relating to securitization accounting over the last several years. There are reasons why these issues have taken a long time to resolve. Among other things: the subject transactions are inherently complex; the market is relatively young and has evolved rapidly; and the Board and international accounting policy makers have historically taken different approaches in this area, which are the subject of an international convergence project. Haste for a response to the current market issues will be counterproductive if it keeps the Board and other policy makers from giving full consideration to accounting policy options, direct and indirect consequences of proposed policy changes and possible compensating adjustments to bank capital rules and other regulations.

It is also important to remember that too much consolidation of SPEs can be just as confusing to users of financial statements as too little. More nuanced approaches should be considered, in particular approaches that (1) enable users of financial statements to differentiate between assets that are truly controlled by the consolidated reporting entity vs. those that have been isolated from that entity and its creditors and (2) appropriately recognize differences among the prevailing structures used for various asset classes. For several years, the ASF has advocated linked presentation as a concept with great potential as part of the final resolution of the issues surrounding securitization accounting. We strongly advocate full deliberation of a linked presentation as part of the current round of accounting policy changes.

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5 Under the linked presentation, the liabilities issued in securitizations would be shown on the asset side of the balance sheet, as a deduction from the amount of securitized assets, within a single caption. Parallel presentations would apply on the income and cash flow statements. The ASF suggested a linked presentation in a December 2003 comment letter to the Board relating to the project that resulted in the adoption of Interpretation No. 46. Most recently, in May 2007, the ASF sent the Board a letter (a copy of which is attached) with some preliminary thoughts on fleshing out a linked presentation approach.
We appreciate your attention to the foregoing comments. Should you have any questions or desire any clarification concerning the matters addressed in this letter, please do not hesitate to contact either of the undersigned.

Sincerely,

George P. Miller
Executive Director
American Securitization Forum

Randy Snook
Senior Managing Director, EVP
Securities Industry and Financial Markets Association

CC:
Securities and Exchange Commission
   Christopher Cox, Chairman
   Paul S. Atkins, Commissioner
   Kathleen L. Casey, Commissioner
   Elisse B. Walter, Commissioner
   Conrad Hewitt, Chief Accountant
   Erik R. Sirri, Director, Division of Market Regulation
   John W. White, Director, Division of Corporation Finance
   James Overdahl, Chief Economist, Office of Economic Analysis

U.S. Department of the Treasury
   Henry M. Paulson, Jr., Secretary
   Anthony Ryan, Under Secretary for Domestic Finance
   David G. Nason, Assistant Secretary for Financial Institutions

Federal Reserve Board
   Ben S. Bernanke, Chairman
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   Kevin M. Warsh, Governor
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Office of the Comptroller of the Currency
   John C. Dugan, Comptroller of the Currency

Federal Deposit Insurance Corporation
   Sheila C. Bair, Chairman

Office of Thrift Supervision
   John M. Reich, Director

Office of Federal Housing Enterprise Oversight
   James B. Lockhart III, Director

Federal Reserve Bank of New York
   Timothy F. Geithner, President
May 15, 2007

Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06856-5166

Dear FASB Members:

On behalf of the American Securitization Forum, we are writing this letter to indicate our interest in engaging with a dialogue with you regarding whether a “linked presentation” accounting model may offer an alternative to the FAS 140 amendments project currently under consideration.

As you may recall from previous ASF correspondence on this topic, our members believe that a linked presentation model coupled with the elimination of the QSPE, as further briefly outlined below, has significant merit in its own right. We also believe that this approach could help avoid and/or reconcile certain difficulties that we foresee in applying FAS 140 prospectively, based on the nature of amendments currently being contemplated by the Board. In addition, we understand that this approach is similar to one being discussed by the Big 4 accounting firms. As a result, we believe that there may be sufficiently broad support and momentum behind a linked presentation concept to warrant further discussion with the FASB.

Although our discussions are preliminary, we have recently begun working with our members to flesh out basic elements of a possible linked presentation approach. We would welcome an opportunity to discuss our developing approach with representatives of the Board and staff, whenever that discussion would be productive in connection with your ongoing FAS 140 amendment deliberations. In preliminary form, the linked presentation model that we have been discussing with our members may be summarized as follows:

**Approach:** Beginning with the existing construct of FAS 140:
- Maintain paragraphs 9a and 9c.
- Delete criteria set forth in paragraph 9b.
- The entity would be analyzed for consolidation under FIN 46; the QSPE concept would be eliminated
- The balance sheet would allow for linked presentation
- P&L concerns arising from mixed attribute accounting could be remedied by applying a fair value option
Results: If sale criteria are met and there is no consolidation under FIN 46, then the debt would be off-balance sheet with gain-on-sale. If sale criteria are not met, then the transaction would be characterized as a financing.

If on the other hand, sale criteria are met and the entity is consolidated under FIN 46:

- Linked presentation would be permitted. If there is any recourse to the transferor, the fair value of the liability would be presented to the extent that recourse exists. No gain-on-sale would be allowed; instead, the fair value option could be used for valuation.

The principle behind this approach is that to the extent a transfer of assets qualifies as a sale and those assets have been legally isolated from the transferor, it is more appropriate and relevant to present as a liability on the balance sheet of the transferor only the amount of recourse that exists to the general assets of the transferor. Where legal isolation has been established, the transferor no longer has access to the transferred assets, and the cash flows generated by those assets would be used to repay the related obligations. To the extent that any other transferor assets are used to settle those obligations, they would be displayed as separate liabilities.

There would need to be additional consideration given as to how this model would apply to third party investors in SPEs that are considered QSPEs under today’s guidelines (i.e., non-transferors). Here again, the general theory would be that the investor would present a liability only to the extent there is recourse beyond its investment in the SPE.

Obviously, significant additional work will be needed to define these proposed conditions and criteria in sufficient detail, but our members are increasingly of the view that a linked presentation model along these broad conceptual lines is worth pursuing.

We note that under FAS 159, preparers have the option to account for assets prior to a securitization transaction at fair value. As a result, we believe that many of the income statement issues that arise in considering whether to derecognize a transaction (so-called “gain-on-sale”) may be less significant, at least for entities that elect to apply the fair value option to financial assets and liabilities prior to a securitization transaction. Accordingly, we believe that a project focused on linked presentation can become primarily a balance sheet presentation project. While not underestimating the scope of this project, we believe that the existence of the fair value option simplifies and contains the project’s potential scope.

Again, we wanted to outline some of our initial thinking on this matter, in the hope that we will have an opportunity to discuss it with you in further detail at an appropriate time during the FAS 140 amendment process. We will be continuing our internal discussions and further development of this approach, and welcome any comments or feedback that you may have.
Thank you for your time and consideration. Please contact George Miller at 646.637.9216 or e-
mail at gmiller@americansecuritization.com if you have questions or would like to arrange a
meeting to discuss this matter in greater detail.

Sincerely,

George P. Miller
Executive Director

c: Esther Mills, Morgan Stanley
Chair, ASF Accounting Subcommittee

Lisa Filomia-Aktas, Ernst & Young LLP
Deputy Chair, ASF Accounting Subcommittee