October 17, 2013

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


Dear Technical Director:

MassMutual Financial Group\(^1\) appreciates the opportunity to submit this letter in response to the request for comment by the Financial Accounting Standards Board ("Board") regarding the Exposure Draft of Proposed Accounting Standards Update (ASU), Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force). We agree with the Board's efforts to develop accounting guidance that would resolve the diversity in practice in the accounting by reporting entities for the difference between the fair value of the financial assets and the fair value of the financial liabilities of a consolidated collateralized financing entity (CFE) and to arrive at the amount a reporting entity would ultimately expect to realize. To resolve this diversity in practice, we support allowing a reporting entity that consolidates a CFE and elects to apply this guidance to measure the liabilities of that CFE at an amount equal to the value of the CFE's assets available to settle the CFE's third party liabilities, thereby ensuring there is no gain or loss recognized upon consolidation that will not ultimately accrue to the reporting entity. We agree that a reporting entity should only report changes in a CFE's value that are attributable to its net economic risk. We also believe that changes in the value of the assets and the liabilities of the CFE can be recognized and allocated in several ways.

Our responses to the Board’s specific questions are set forth in the attached Appendix. If you have any questions about our comments or wish to discuss any of the matters addressed herein,

\(^1\) MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives. MassMutual is headquartered in Springfield, Massachusetts and its major affiliates include: Babson Capital Management LLC; Baring Asset Management Limited; Cornerstone Real Estate Advisers LLC; The First Mercantile Trust Company; MassMutual International LLC; MML Investors Services, LLC, Member FINRA and SIPC; OppenheimerFunds, Inc.; and The MassMutual Trust Company, FSB.
please feel free to contact us. We would be pleased to discuss our comments further with the FASB staff.

Sincerely,

[Signature]

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Appendix - Responses to the FASB's Specific Questions

**Question 1:** Do you agree with the measurement of the financial liabilities of a consolidated collateralized financing entity as described in paragraph 810-10-30-2A? Do you also agree that a reporting entity that consolidates a collateralized financing entity should no longer be permitted to measure the financial liabilities of the collateralized financing entity using the fair value option of Topic 825 (whether or not the reporting entity elects to apply the measurement guidance under the proposed Update)?

Yes. If a reporting entity that consolidates a CFE elects to apply this guidance as proposed, we agree that the financial liabilities of a CFE should be valued at an amount equal to the value of the CFE’s assets available to settle the CFE’s liabilities. However, in that circumstance, we do not believe that the consolidated CFE’s third party liabilities (i.e., beneficial interests in the CFE other than the reporting entity’s) should be valued at an amount greater than the contractual obligations of those liabilities. For example, if a CFE’s assets available to settle its liabilities have a fair value of $105 and contractual obligations of the CFE are $100, we do not believe that the consolidated CFE’s liabilities should be valued at $105. The reporting entity consolidating a CFE should measure the financial liabilities of the CFE using a methodology that reasonably allocates the value of the CFE’s assets in a manner that reflects the economics of the beneficial interest holder that is ultimately expected to absorb the CFE’s economic returns.

We suggest that final ASU provide examples of methodologies to allocate a CFE’s assets attributable to the beneficial interests owned by the reporting entity as described in paragraph 810-10-30-2A.b and 810-10-35-6.b.

As paragraphs 810-10-30-2A.b and 810-10-35-6.b requires the allocation of the CFE’s assets available to settle its obligation to the reporting entity, the intent of the allocation in paragraphs 810-10-30-2B and 810-10-35-7 is confusing. As currently written, these paragraphs suggest that the reporting entity is required to allocate the remaining value of the CFE’s assets calculated in paragraphs 810-10-30-2A and 810-10-35-6 to the CFE’s individual liabilities held by parties other than the reporting entity.

While certain allocation methods, such as a liquidation method, may require a reporting entity to determine what value is available to satisfy each debt tranche on an aggregate basis, others may not. Therefore, a requirement for this allocation on an individual liability level does not, in our view, seem necessary to accomplish goals of this proposed guidance. Alternatively, if the intent of paragraphs 810-10-30-2B and 810-10-35-7 is to ensure the measurement and allocation methodologies in paragraphs 810-10-30-2A and 810-10-35-6 are reasonable and consistently applied by the reporting entity then, we suggest revising these paragraphs to read as follows:
A reporting entity shall allocate the value of the CFE’s assets and financial liabilities calculated in the preceding paragraph to the individual financial liabilities its beneficial interest held in the CFE using a reasonable and consistent basis using a methodology appropriate in the circumstances.

Either way, we believe an example of the intent of the allocation process in paragraphs 810-10-30-2A and 810-10-35-6 would be helpful.

However, we do not believe that reporting entity that consolidates a collateralized financing entity should be precluded from measuring the financial liabilities of the collateralized financing entity using the fair value option. There may be circumstances where the fair value of a CFE’s liabilities is more determinable than the fair value of its assets. For example, a CFE’s asset may be thinly traded or illiquid in a marketplace, whereas, its debt may be traded in an active market and have a more readily determinable fair value than the CFE’s assets. This fair value of the CFE’s liability would reflect an investor’s (market participant’s) perception of the value of the CFE’s underlying asset portfolio. Therefore, the fair value of the CFE’s liabilities may be a more reliable measure of the fair value of its assets. Allowing the reporting entity to determine the fair value of a consolidated CFE’s assets based on the fair value of the consolidated CFE’s liabilities would also yield the same result as proposed. Either valuation method would result in the reporting entity reporting the CFE’s liabilities and assets at equal values.

Question 2: Do you agree that a reporting entity that previously elected or was required to measure all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be required to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you also agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be permitted to elect to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you agree that a reporting entity that consolidates for the first time a collateralized financing entity should have an option to not apply the amendments in this proposed Update?

In regards to the first question in this series, it is our understanding that this guidance is elective for all entities regardless as to whether they have previously elected the fair value option (FVO) for a consolidated CFE’s liabilities. Paragraph 810-10-15-17A states [bolded for emphasis]:

This guidance is elective for all reporting entities that consolidate a collateralized financing entity. A reporting entity that does not elect to apply
this guidance shall measure the financial liabilities of the consolidated collateralized financing entity in accordance with other applicable Topics.

Paragraph 810-10-17-17B goes on to state:

A reporting entity that consolidates a collateralized financing entity shall not measure the financial liabilities of the collateralized financing entity at fair value under the fair value option guidance of Topic 825 on financial instruments whether or not the reporting entity elects to apply this guidance.

We have interpreted these paragraphs to mean that a reporting entity that previously elected the FVO for a consolidated CFE’s liabilities can elect not to apply this guidance to those CFEs. However, if the reporting entity chooses not to adopt this guidance, it may no longer apply the FVO to that consolidated CFE’s liabilities and must apply other guidance (i.e., amortized cost).

We believe that this guidance should be elective for all entities. However, if it is the intent of the Board that the liability measurement guidance in this proposal is required to be applied by a reporting entity that previously elected the FVO for a consolidated CFE’s liabilities, this should be clarified within the scope of the guidance.

On the adoption of FAS No. 167, if a CFE was previously consolidated, a reporting entity was unable to elect the FVO to account for that consolidated CFE’s assets and liabilities. Therefore, we agree that a reporting entity that had not previously elected the FVO for a consolidated CFE should be permitted to elect to apply this guidance at adoption. We also agree that this election should be available on the initial consolidation of a CFE. These elections will allow a reporting entity to account for a consolidated CFE’s assets and liabilities in a manner consistent with the rights and obligations associated with those assets and liabilities. The ability to make this election will also help eliminate diversity in practice.

In addition to the scope clarifications discussed above, we encourage the Board to clarify the scope exception discussed in paragraph BC13 of the proposed guidance, which states:

The Task Force discussed that the guidance in this proposed Update should not be applied to transfers of financial assets that do not meet the conditions for a sale and, as a result, are required to be accounted for as a secured borrowing with pledge of collateral under paragraph 860-30-25-2.

If it was the intent of the Board to exclude such transfers from the scope of this proposed guidance, we suggest that it specifically say so within the scope section.
**Question 3:** Should the decision to apply the proposed amendments be an accounting policy decision or a decision to be applied to individual collateralized financing entities? Please explain.

We believe that the decision to apply the guidance should be applied on an individual CFE basis. This will allow a reporting entity to apply an accounting method that best reflects the purpose, design and economics of the CFE.

**Question 4:** The proposed amendments require that a reporting entity allocate the calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. For preparers, is additional allocation guidance necessary? If yes, what methods should be used to allocate the calculated value of the financial liabilities to the individual financial liabilities.

As stated in our response to Question No. 1, we are not sure what purpose allocating the calculated value of the CFE's assets to the CFE's individual financial liabilities serves. Our understanding of the proposed guidance is that the purpose of this guidance is to eliminate the impacts of changes in a consolidated CFE's rights and obligations that will ultimately be absorbed by a third party from impacting the reporting entity's financial results. Therefore, after the reporting entity allocates the value of the CFE's assets available to satisfy its beneficial interests in the CFE, the remaining beneficial interests in the CFE are valued at an amount equal to the remaining asset value to satisfy those obligations. A specific allocation of the CFE's asset value to the individual financial liabilities held by third party beneficial interests of the CFE seems unnecessary.

If our assumptions that the allocation required in paragraphs 810-10-30-2B and 810-10-35-7 are referring to the allocation of the CFE's assets to the reporting entity's beneficial interest in the CFE are correct, we agree that this allocation should be completed "using a methodology appropriate in the circumstances."

If paragraphs 810-10-30-2B and 810-10-35-7 are referring to the allocation of the individual liabilities of the CFE to the reporting entity as allocated in the previous paragraphs (810-10-30-2A.b and 810-10-35-6.b), we agree that the reporting entity should recognize this change in values in its consolidated statement of comprehensive income as discussed in paragraph 810-10-35-09 of the proposed guidance. We believe there are multiple reasonable methods to allocate the CFE's assets available to settle its obligations: for example, a liquidation approach which allocates the CFE's assets available to satisfy its obligations as of the reporting date based on the CFE's payment waterfall; or, a fair value approach under which the reporting entity values its beneficial interest in the CFE at fair value and allocates the remaining assets of the CFE to all other liabilities of the CFE.
Question 5: For users, would disclosures about the method used to allocate the fair value of the financial assets to the individual liabilities and the value of the beneficial interests retained by the reporting entity provide decision-useful information?

No. We do not believe a disclosure of how the reporting allocated a consolidated CFE’s assets to its individual liabilities would provide information that is useful to the financial statement user.

Question 6: Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively for reporting entities that have previously measured the financial assets and financial liabilities of the collateralized financing entity at fair value? If not, please explain why.

We generally agree with the transition rules. However, an effective date of fiscal years, and interim periods within those years, beginning after December 15, 2013, may be aggressive for certain entities that consolidate multiple CFEs. We suggest an effective date of fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption being permitted.

Question 7: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

Yes. We believe that early adoption should be permitted.

Question 8: 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 the requirements should be different.

No. We believe the amendments should be applied consistently to both public and nonpublic entities.

Question 9: For preparers, how much time would be needed to implement the proposed amendments?

It is difficult for us to estimate the amount of time it would take to implement the proposed guidance. Once we have a better understanding of the acceptable methods of allocating the CFE’s assets to its liabilities, we would have a better idea of how long it would take to implement the systems, processes, and controls needed.
For these reasons, we believe the proposed effective date of interim periods within those years, beginning after December 15, 2013 should be changed to December 31, 2014, with early adoption permitted. This will allow additional time to implement any new procedures and controls while allowing those reporting entities that will require less time to implement the guidance.

**Question 10:** For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?

It is difficult to estimate the cost of implementing this proposed guidance. We expect that significant resources will be required to determine appropriate allocation methods for each individual CFE. Further, we expect that reporting entities will incur cost associated with implementing new valuation processes and controls; and potentially additional audit costs. For reporting entities with a significant number of consolidated CFEs, the effort would be complex and the time and cost could be high. However, the financial results and financial statement presentation would more appropriately reflect the economics of a reporting entity that consolidates a CFE(s), which would provide information that is more useful to the financial statement reader. Therefore, we believe the benefits would be worth the costs incurred to implement the guidance.