LETTER OF COMMENT NO. 40

From: DDGorton1@aol.com [mailto:DDGorton1@aol.com]
Sent: Friday, November 14, 2008 5:00 PM
To: Director - FASB
Subject: RE: File Reference No. 1610-100

November, 14, 2008
Wayne State University
Department of Accounting
Detroit, Michigan
Donald E. Gorton, Professor of Accounting, Emeritus

By email

Financial Accounting Standards Board
Attention: Technical Director, **File Reference No. 1610-100**

Dear Sir:

I have reviewed the Exposure Draft (Revised) "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140" and several of the selected questions contained therein. My responses follow.

1. *Will the proposed Statement meet the project's objective to improve ... the information that a reporting entity provides ...*
(a) a transfer of financial assets,
(b) the effects of a transfer on its financial position ... performance, and cash flows,
(c) a transferor's continuing involvement in transferred financial assets?

Yes

2. *Do you agree with the Board's decisions to eliminate the qualifying SPE concept and to require that all securitization entities be evaluated for consolidation ...?*

Yes

3. *Certain financial statement users suggested that the Board adopt a no-continuing-involvement model (that is, if there is any continuing involvement, sale accounting would not be permitted). The Board decided to continue to permit derecognition of financial assets with continuing involvement as long as the conditions in paragraph 9 of Statement 140, as amended by this proposed Statement, are met, with the addition of enhanced disclosure requirements about a transferor's continuing involvement (see paragraph A28 of this proposed Statement). Do you agree with this decision?*

No I believe the no-continuing-involvement alternative (there were 3 alternatives presented by the staff for the Board's consideration) merits further consideration. While the Board's vote against the proposal, on April 7, 2008, was in fact 4-3, the reasons advanced were neither convincing nor compelling.

(Quoting from the "Minutes of the April 2, 2008 FASB Board Meeting") The three members that were supporting the no-continuing-involvement alternative were questioned as to whether or not they believed that alternative could be completed by year-end (of 2008). Given that this project has been ongoing since at least 2005, the question seems inappropriate. Moreover, to suggest that this important issue would be decided on the basis of an urgency to finish, rather than the merits of the proposal is astonishing.

In fact, one member, Mr. Young, answered that he believed it could be accomplished by the end of 2008. Another Board member, Mr. Smith, who had voted against the no-continuing involvement alternative, stated that he would have liked to support it, because it "gives the best answer and properly portrays the economics of whether the assets have been transferred." He went on to say however that he voted against it "because of the requirement to complete the project by the end of the year."

Another objection, voiced by Board member Ms. Seidman, was that "she believes it would be misleading for transferors to present assets on their books when only a de minimus level of recourse is maintained." Yet 'recourse' is the heart of this particular issue. For those of us who believe in full disclosure of all material facts as one of our primary objectives in accounting – accounting for anything – hiding important issues of 'recourse' behind ultra-complex contractual designs must be brought out into the open in order to achieve any kind of real 'transparency'.

I know that time is short, and this standard has already been much too long in development, but getting the answer right is also very critical.

Thank you for giving me the opportunity to express my concerns in this matter.

Yours very truly,

Donald E. Gorton