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December 7, 2012

Ms. Susan M. Cospers
Technical Director
File Reference No. EITF-12G
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, *Consolidation—Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity (Topic 810)*

Dear Ms. Cospers:

On behalf of The Carlyle Group (referred to herein as “Carlyle” or “we”), we appreciate the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, *Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity* (“the Proposed ASU”).

Carlyle provides investment management services to, and has transactions with, various private equity funds, real estate funds, collateralized loan obligations (“CLOs”), hedge funds and other investment products that we sponsor for the investment of client assets. As of September 30, 2012, Carlyle’s total assets were \$30.0 billion of which \$25.7 billion represents assets of consolidated funds, primarily CLOs. The assets and liabilities of our consolidated CLOs and funds are generally held in separate legal entities and, as a result, the assets of the consolidated CLOs and funds are not available to meet our liquidity requirements and similarly the liabilities of the consolidated CLOs and funds are non-recourse to Carlyle. Generally, the consolidation of the consolidated CLOs and funds has a gross-up effect on our assets, liabilities and cash flows but has no effect on net income attributable to Carlyle and to partners’ capital.

We recognize that reporting entities have not consistently accounted for the difference between the fair value of assets and the fair value of liabilities of collateralized financing entities upon their initial consolidation. We believe that the diversity in practice results from registrants having to deal with the effects of consolidating entities for which they have either an insignificant or no beneficial interest in the collateralized financing entities (other than subordinated fees). As a result, the preparer is left with how to fairly present the difference in the fair value of the assets and the fair value of the liabilities without distorting the results of the reporting entity.

While the effect of consolidating collateralized financing entities is confusing to readers of such financial statements, we believe that many preparers have recorded the initial difference between the fair value of the assets and the fair value of the liabilities as appropriated equity, and have not distorted earnings or equity attributable to the reporting entity in the subsequent accounting. Because of this, we don't believe the Proposed ASU will have a meaningful effect on the reported results and as such the reporting entity should not be required to retroactively apply the Proposed ASU. Instead, the reporting entity should be allowed to reflect the new guidance at the effective date.

We have the following comments on the Proposed ASU:

First Finalize Proposed ASU, Consolidation (Topic 810) *Principal versus Agent*

The Proposed ASU on Consolidations is addressing the effect of consolidating certain collateralized financing entities. In situations where the reporting entity has either no beneficial interest or an insignificant beneficial interest (other than subordinated fees), we believe that the preferable accounting is to not consolidate the collateralized financing entity. As a result, we believe the FASB should first focus on completing its project to amend the consolidation accounting standards (Topic 810), as outlined in Proposed ASU, *Consolidation (Topic 810) Principal versus Agent Analysis*. The effective date of the Proposed ASU should not precede the effective date of any forthcoming guidance to amend when a VIE should be consolidated. To first restate historical presentations to comply with the Proposed ASU and then to subsequently eliminate the consolidation of such entities upon the issuance of *Principal versus Agent Analysis* would be inefficient to preparers and confusing to readers.

Clarify Guidance on Scope of the Proposed ASU

The Proposed ASU is unclear as to whether the guidance applies when the manager has a beneficial interest in the collateralized financing entity other than fees. If it only applies to entities in which the manager has no beneficial interest, then does the Proposed ASU require the management contract to be fair valued? We would think not given the SEC staff's previous position on this topic, but clarification would be helpful. The Proposed ASU would seem to apply to managers that also have a beneficial interest, but this should be made clear.

Through referencing the fair value guidance, the scope seems to imply that the Proposed ASU applies only when the reporting entity manages the assets and the liabilities on the basis of net exposure. Often in such collateralized structures, the reporting entity effectively only manages the assets, as the capital structure is set at inception. Therefore, no or little management of the liabilities actually occurs. We presume such entities would be in scope, but clarification would be helpful. In addition, the paragraph BC6 seems to indicate that the basis for the measurement exception is because the reporting enterprise has the means to terminate the collateralized financing entity. We think it should be made clear that that is not a requirement to apply the Proposed ASU's measurement exception.

Consider Broader Implications of Setting the Fair Value of Liabilities to Equal the Asset Fair Values

The Proposed ASU offers a practical expedient to the problem of what to do with the difference between the fair values of the assets and the fair values of the liabilities of collateralized financing entities by measuring the liabilities equal to the fair value of the assets (or vice versa) when the manager has no beneficial interest in the entity other than fees. We would agree that this is what ultimately happens at the end of the life of a collateralized financing entity.

However, over the life of the collateralized financing entity, this is not true. In many entities limited trading exists in the debt tranches of these entities and those fair values do not equate to the fair value of the assets. Fixing the liability value to the asset value is expedient but not necessarily correct. The true fair value of the liabilities do not equal the asset values.

The Board should consider the following possible broader implication of the Proposed ASU:

- If the debt's measurement is based upon the asset fair value, would that same amount be reported as the debt fair value under FAS 107 disclosure requirements or would the real fair value of the debt still be required to be disclosed? We believe the real fair value of the debt should be disclosed, but clarification would be helpful.

We appreciate the opportunity to offer our feedback on the Proposed ASU. We would be pleased to discuss our views with you at your earliest convenience.

Sincerely yours,



Curtis L. Buser
Managing Director & Chief Accounting Officer