



THE BANK OF NEW YORK MELLON

December 10, 2012

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merrit 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. EITF-12G, Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity**

Dear Ms. Cospers:

The Bank of New York Mellon Corporation (BNY Mellon) appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, Consolidation (Topic 810), Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity (Proposed Update).

BNY Mellon is a global financial institution operating in 36 countries with \$340 billion of total assets and \$1.4 trillion in assets under management as of September 30, 2012, including approximately \$10 billion in collateralized loan obligation structures.

We are supportive of the accounting principles laid out in paragraph BC 6. Specifically, a reporting entity's ownership of any beneficial interests it holds in a collateralized financing entity should be measured at the amount that would be realized if the collateralized financing entity's assets were sold and its obligations were settled. We believe the Board's statement in paragraph BC 6 that "If the reporting entity owns some of the beneficial interests of the collateralized financing entity, the fair value of the beneficial interests held by the reporting entity should be determined based on the perspective of market participants, consistent with the objective of measuring the net amount that the reporting entity would expect to realize if it has (or believes it can readily obtain) the means to terminate the collateralized financing entity, that is, to sell the collateralized financing entity's assets and settle the collateralized financing entity's obligations, and realize the net amount" clearly articulates the appropriate basis for this conclusion.

However, ASC 820-10-35-18D is not consistent with that basis for conclusion. Accordingly, we believe the principles in paragraph BC 6 must be added to the Codification and suggest the following be added as ASC 820-10-35-18M:

*"A reporting entity must measure its retained beneficial interests held in a collateralized financing entity at a net amount the reporting entity would expect to realize if the collateralized financing entity is terminated and the assets and liabilities of the collateral financing entity are sold and settled, respectively."*

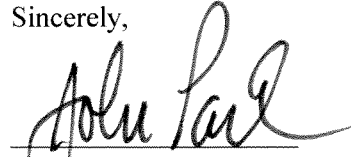
Paragraph ASC 810-10-35-6 would need to be amended to no longer reference ASC 820-10-35-18D.



Our specific responses and comments to the questions in the Proposed Update are included in the **Appendix** to this letter.

If you have any questions or are in need of further information, please contact Robert Hitchings at (212) 635-7083 or me at (212) 635-7080.

Sincerely,

A handwritten signature in black ink, appearing to read "John Park", written over a horizontal line.

John Park  
Corporate Controller

## Appendix

**Question 1:** *Do you agree that a reporting entity should measure the fair value of a collateralized financing entity's financial assets and financial liabilities consistently with how market participants would price the reporting entity's net risk exposure (that is, how a market participant measures the retained beneficial interest held by the reporting entity) at the measurement date?*

**Response:** No. We believe the reporting entity should measure any retained beneficial interests it holds consistent with an objective of measuring the net amount that it would expect to realize as if it has the means to terminate the collateralized financing entity as discussed in paragraph BC6. Estimates of the cash flows available from the financing entity's collateral are more readily available and estimable than valuing the financing entity's liabilities or net position due to the limited markets for those liabilities. Both the senior and subordinated notes of a collateralized financing entity are payable solely from the amounts received in respect to the entity's collateral. To the extent the proceeds from the entity's collateral are sufficient to repay principal and interest to the senior noteholders, the maximum amount they will receive is equal to the accrued interest and the par value of the notes. Any proceeds in excess of the amounts paid to the senior noteholders are used to settle the subordinated notes.

We believe that the proper measurement principles for a reporting entity's beneficial interests held in a collateralized financing entity are articulated well in paragraph BC 6.

**Question 2:** *Do you agree that the scope of the amendments in this proposed Update should apply to all entities that are required to consolidate a collateralized financing entity, as defined, and are required to or have elected, under topic 825, to measure all eligible financial assets and financial liabilities of the collateralized financing entity at fair value?*

**Response:** Yes. In order to have comparability among the financial statements of companies that are required to consolidate collateralized financing entities, the scope of amendments in the Proposed Update should apply to all such companies.

**Question 3:** *Do you believe that current U.S. GAAP provides guidance for reporting entities about how to account for any differences between the carrying amount of the financial assets and the carrying amount of the financial liabilities of a consolidated collateralized financing entity that is not within the scope of this proposed Update? If not, please explain why.*

**Response:** Yes. Additional guidance is not needed for collateralized consolidated financing entities that are not required to, or that have elected not to, measure the financial assets and liabilities at fair value.

**Question 4:** *Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively? If not, please explain why.*

**Response:** Most users of financial statements, when asset management funds are consolidated in those financial statements, adjust the financial results to exclude the impact of the consolidated funds. The selection of the method of adoption should emphasize that which minimizes the costs for both financial statement preparers and users. If ASC 820-10-35-18D is required over our recommendations to change it, it may be difficult for financial statement preparers to obtain the historical data necessary to apply ASC 820-10-35-18D on a retrospective basis. Therefore, we believe it is appropriate to apply the Proposed Update using the modified retrospective approach, which would likely reduce the costs and amount of time necessary to implement the Proposed Update.

**Question 5:** *Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.*

**Response:** We support an option for early adoption for those entities that wish to do so.

**Question 6:** *Is the guidance in paragraphs 820-10-35-18D and 820-10-35-18F difficult to apply to collateralized financing entities, as defined? If so, what additional information would be useful in applying the guidance in this proposed Update?*

**Response:** As discussed in our response to Question 1 above, we do not believe it is appropriate to measure a reporting entity's retained beneficial interests in accordance with ASC 820-10-35-18D. Market data may not be readily available since transactions are generally in the private markets, limited, and less observable. Applying the Proposed Update according to the conclusion in paragraph BC 6 would be relatively easy and cost effective.

**Question 7:** *The proposal amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.*

**Response:** We see no basis for a difference in adoption of the final ASU for public and non-public entities.

**Question 8:** *For preparers, how much time would be needed to implement the proposed amendments?*

**Response:** We believe it would take a minimum of 6 months to implement the Proposed Update as currently drafted. Significant time would be required to determine, on a retrospective basis, the prior market values of the net risk position in a collateralized financing entity's assets and obligations. However, if our suggestion to measure a reporting entity's beneficial interests in accordance with paragraph BC 6 is adopted, the amount of time to implement the Proposed Update would be significantly shorter.

**Question 9:** *For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?*

**Response:** We do not believe we will incur significant on-going costs once the Proposed Update is implemented, although incremental upfront costs will likely be incurred.