Please note that the comments expressed herein are solely my personal views

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- File Reference No. EITF-12Gr
- Consolidation (Topic 810)
- Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed Accounting Standards Update: Consolidation (Topic 810); Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity.

Proposal

The amendments in this proposed Update would apply to a reporting entity that is required to consolidate a collateralized financing entity[1] under the Variable Interest Entity Subsection of Subtopic 810-10. The proposed amendments would:

- allow such a reporting entity to measure the financial liabilities of a consolidated collateralized financing entity on the basis of the fair value of the financial assets and the carrying value of nonfinancial assets;
- require the reporting entity to allocate the calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances;
- require the changes in the sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to the beneficial interests (other than beneficial interests that represent compensation for services) owned by the reporting entity to be recognized in the consolidated statement of comprehensive income of the reporting entity.

[1] A collateralized financing entity is defined as a variable interest entity that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity.

The reporting entity would not be permitted to measure the financial liabilities at fair value under the fair value option guidance of Topic 825 on financial instruments.

I broadly support this proposed Update, which will resolve diversity in practice. I also agree that proposed amendments would allow a reporting entity to reflect more appropriately its economic position in the consolidated collateralized financing entity, by reflecting in net income those changes in value relating to its net economic risk.

Answers to other specific questions raised by the FASB

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, this is reasonable and will reduce diversity in practice.

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?

I agree with this.

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.

Yes. Given the wide-ranging diversity in structures, the decision to apply the proposed amendments should be applied to individual collateralized financing entities.

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?

No further guidance is necessary.

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?

Yes, this would provide meaningful information to users of financial statements.

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.

I fully agree with the transition proposals.

Yours faithfully

C.R.B.

Chris Barnard