



*Invested in America*

October 16, 2013

Mr. Russell G. Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update (Revised) – *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity*

**Reference Number: EITF-12GR**

Dear Mr. Golden:

The Global Financial Institutions Accounting Committee and the Asset Management Accounting Policy Committee of the Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates the opportunity to provide comments on the Financial Accounting Standards Board’s (“FASB’s” or the “Board’s”) proposed Accounting Standards Update “Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity (Proposed ASU).

We support the FASB’s effort to resolve the diversity in practice in accounting for the difference between the fair value of financial assets and financial liabilities of a consolidated collateralized financing entity (CCFE). As a core principle, our members believe that the net income and related disclosure of a reporting entity should reflect only its net economic position.

However, we do not support the valuation and disclosure approach of the Proposed ASU. We believe the proposed approach potentially distorts the economic position of the reporting entity, adds unnecessary complexity and creates inconsistent accounting and disclosure for economically similar financial liabilities depending on whether they are issued by a CCFE. We are also concerned with the timing of adoption of this proposal because it addresses a practice issue that will be affected by two other ongoing FASB projects: (i) the consolidation project addressing principal vs. agent which may have a significant effect on the consolidation of CCFEs and (ii) the classification and measurement project of financial assets and liabilities which addresses the use of fair value for non-recourse liabilities.

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<sup>1</sup> SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit [www.sifma.org](http://www.sifma.org).

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We support the original measurement approach (Initial Proposal) proposed by the Emerging Issues Task Force (EITF) in its previous deliberations. That is, a reporting entity would measure the fair value of its net economic risk exposure resulting from its involvement in the CCFE in a manner that is consistent with Topic 820, *Fair Value Measurement* (Topic 820) and allocate that fair value to the gross assets and liabilities in a consistent and reasonable manner. In our view, the allocation of fair value on a gross basis should not be prescribed but rather allow for an approach that uses the best information available to recognize the gross assets and liabilities. We believe this approach is superior because it is consistent with both existing valuation techniques for net risk portfolios available under Topic 820 and with the current practice of many of our members. We also believe the most meaningful disclosure of the fair value of a CCFE would be of the net risk retained (i.e., beneficial interests held) since users want to understand an entity's actual exposure to a CCFE and not the amounts required to be consolidated.

While we acknowledge the Board's desire to include CCFEs that hold non-financial assets in the scope of the Proposed ASU, we believe that this objective can be solved simply. The scope can be clarified to include *insignificant*, non-financial components of a CCFE *that are not a central part of the original design*. We believe that it is not common for CCFE's to have significant non-financial assets and therefore, this is merely a theoretical issue that need not be addressed.

The Board was also concerned about the complexity of defining the "net economic risk position." In our view, this is widely understood to mean the beneficial interests issued by the CCFE that are held by the reporting entity (excluding those interests representing compensation for services which is under a revenue recognition model); the net changes in fair value of the CCFE's assets and liabilities on a consolidated basis should equal the net changes in fair value of these beneficial interests on an unconsolidated basis.

The final standard should be clear that the amount recognized by the reporting entity in net income is the change in fair value of its net economic interest:

- If the Board decides to adopt the Initial Proposal, we suggest the final standard specifically exclude the allocation of the portfolio-level adjustments to the beneficial interest held by the reporting entity and explicitly state that the value of the reporting entity's beneficial interest should be fair value. We are concerned that absent this clarification, an incorrect interpretation of the Initial Proposal would require that the recognized net economic interest is the difference between the fair value of the assets and liabilities which may not be equivalent to the fair value of the net economic risk position.
- If the Board disagrees with our recommendation and moves forward with the Proposed ASU, we believe the formula described in paragraph 810-10-35-6 b.1. requires this same clarification. That is, the formula should state that the fair value of the beneficial interests owned by the reporting entity should be deducted from the fair value of the assets rather than the "fair value of the financial *assets attributable* to the beneficial interest owned by the entity."

Our detailed comments on the questions in the Proposed Update are included in the Appendix.

We hope you find our comments helpful. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact us (matthew.schroeder@gs.com, 212-357-8437; or Israel.Snow@gs.com, 212-357-5730).

Very truly yours,



Matthew L. Schroeder, Chair  
SIFMA Global Financial Institutions Accounting Committee



Israel Snow, Chair  
SIFMA Asset Management Accounting Committee

cc: Mary Kay Scucci, PhD, CPA, Managing Director, SIFMA  
Susan Cospers, Technical Director, FASB and Chairman, Emerging Issues Task Force

## Appendix

### Questions for All Respondents

***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)?***

No. We strongly disagree with the measurement approach in the Proposed ASU. On a conceptual basis, we note that measuring financial assets and related non-recourse liabilities at fair value is not unique to a CCFE. Indeed, non-recourse liabilities can be issued directly by the reporting entity as in the case of certain covered bonds and can be secured initially by financial and non-financial assets. We believe valuing a portfolio of financial assets and non-recourse liabilities on a net risk basis is entirely appropriate and consistent with Topic 820 irrespective of whether such portfolios are held in a consolidated subsidiary or directly by the parent entity.

We believe the proposed measurement approach will create non-economic net income for reporting entities with beneficial interests in a CCFE for multiple reasons. First, we believe the formula described in paragraph 810-10-35-6 b.1. of the Proposed ASU could be interpreted to require that the net beneficial interests held by the reporting entity be recognized at a pro rata amount of the fair value of the assets without consideration that such assets are held in a non-recourse structure. As such, that value would not be equivalent to the fair value of the net beneficial interests held by the reporting entity. For example, consider a CCFE that has assets with a fair value of \$100 and liabilities with a fair value of \$97 and a 10% net economic interest held by the reporting entity that can be exited in a transaction with a market participant at \$9.70. Under the Proposed ASU, the beneficial interest eliminated would be 10% of the fair value of the assets, that is, \$10, creating non-economic income of \$0.30.

Secondly, the measurement approach in the proposed ASU will create non-economic income relating to the reporting entity's pro rata share of the non-financial assets recognized on a basis of other than fair value. The Board cited the potential presence of non-financial assets as a reason for creating the methodology in paragraph 810-10-30-2A. However, the holding of non-financial assets is intended only to be for a short duration and is generally not significant in most CCFEs. We therefore do not support the exclusion of all non-recourse financial liabilities of a CCFE from using the fair value option under Topic 825 and from the fair value disclosures.

Our recommendation is for the Board to revert back to the measurement approach initially proposed by the EITF. That is, a reporting entity would determine the fair value of the net economic risk exposure of a CCFE under Topic 820.

Using the example of a CCFE provided above, we believe an appropriate gross up under the Initial Proposal should be either of the following depending on whether the fair value of the assets or the liabilities is more observable. We note that in each case the beneficial interests held by the reporting entity is eliminated at its fair value as determined under Topic 820.

Assets:	\$ 97.0
Liabilities – third party	\$ 87.3
Liabilities held by the reporting entity:	\$ 9.7
Or	
Assets:	\$100.0
Liabilities – third party:	\$ 90.3
Liabilities held by the reporting entity:	\$ 9.7

We also believe disclosures on the fair value of the net economic risk of the reporting entity (i.e., beneficial interests held) would be most meaningful as we believe users want to understand an entity’s actual exposure to a CCFE and not the amounts required to be consolidated. That is, the net risk position (i.e., beneficial interests) held should be included in the fair value disclosures required by paragraphs 825-10-50-10 through 50-16 with reconciling disclosures of the gross assets and liabilities that agree back to the financial statement of position.

Alternatively, if the Board requires gross presentation in the fair value disclosures to be consistent with the consolidated presentation, we believe the net risk position held by the reporting entity should be considered in determining the appropriate level of the fair value hierarchy for both the gross assets and liabilities.

***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?***

We do not support the Proposed ASU. We agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the CCFE at fair value should be permitted to apply the original net economic risk exposure approach proposed by the EITF to CCFEs that exist at the date of adoption. A one-time election to measure the financial assets and liabilities of a CCFE upon transition would help to eliminate diversity in practice and would allow these reporting entities to better reflect the economics of their interests in the CCFEs.

**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 the measurement basis of the consolidated assets and liabilities of a CCFE should be made at the level of the individual CCFE at the date the entity is first consolidated. We believe there may be instances where the use of fair value for the assets and or liabilities of a CCFE does not provide the most relevant and decision useful information to the investor (e.g. transactions where the reporting entity retains a significant beneficial interest and/or neither the assets or the liabilities are expected to have fair values that are determinable without incurring undue costs.)

**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. We do not believe additional guidance is necessary. In our view, the allocation of fair value on a gross basis should not be prescribed but rather allow for an approach that uses the best information available to recognize the gross assets and liabilities.

**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?**

N/A

**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 do not support the Proposed ASU. However, we would be supportive of the proposed transition guidance for either the Initial Proposal or the Proposed ASU.

If the FASB reverts to the Initial Proposal, we 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 liabilities of the CCFE at fair value. Additionally, if a reporting entity makes a one-time election to measure the financial assets and liabilities of a CCFE at fair value as discussed in Question 2 above, we think the entity should have the option to apply the proposed amendments retrospectively.

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

We agree that early adoption of the proposed amendments 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.**

We believe that private companies should be subject to the same accounting standards as public companies to ensure comparability across industries, however, we believe that nonpublic companies should be allowed an additional year to implement the proposed amendments once final, consistent with other amendments.

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

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

We believe that the approach in the Proposed ASU creates significant operational issues for valuing some CCFEs. For instance, an asset-backed securitization may have hundreds, perhaps thousands of assets. Each of these assets is unique and has values which are less observable than the corresponding liabilities. On the liability side however, there are only a handful of securities which are issued and traded in the market and therefore have more observable values. The assets are not necessarily serviced by the consolidating entity, thus obtaining enough information to come to an adequate estimation of value can be challenging. This, coupled with the sheer volume of instruments, creates a significant burden. Additionally, we do not believe the significant additional time and expense in determining the fair value of a CCFE's assets using this proposed approach is justified given that the resulting value would be less observable than using a value based on the more observable liabilities.

Our members have also not fully explored whether the scope of the CCFE is operational for all fact patterns. We have some concern that the FASB is creating a new accounting entity, the CCFE, and that the proposal may scope in entities that the Board did not intend to be subject to the proposed measurement guidelines. The definition of CCFEs focuses on "beneficial interests that have recourse to the related financial assets of the collateralized financing entity." Some may interpret this as only having recourse to the related financial assets of the CCFE, while others may interpret it as having recourse to the financial assets of the CCFE and potentially to another entity. Additionally, the proposed guidance does not fully explain how to consider VIE liabilities that may be guaranteed by other entities. We are concerned with scope because the measurement approach of the Proposed ASU could potentially result in non-economic net income. However, if the Board accepts our recommendation to revert to the Initial Proposal, identifying the scope of the final standard would not be an issue because we would expect non-recourse liabilities issued by a CCFE or directly by a reporting entity to be valued consistently.

We also question the usefulness and timing of the Proposed ASU because it addresses a practice issue that will be affected by two other ongoing FASB Projects.

- The Proposed ASU would introduce a new measurement approach for financial liabilities of CCFEs. The FASB's Classification and Measurement project would require the nonrecourse financial liabilities to be measured on the same measurement basis as the related financial assets, which is different than the

Proposed ASU. We do not believe introducing a new measurement attribute for a narrow population of liabilities, only to potentially change the measurement rules at a later date will provide users with useful information in their decision making process. If the FASB believes improvements are necessary in the accounting for liabilities of CCFEs, these should be considered as part of the comprehensive review of nonrecourse liabilities rather than dealing with individual and narrow issues in isolation.

- The FASB has a project on its agenda related to consolidations and performing a principal versus agent analysis. This project could potentially result in different consolidation conclusions for entities that are in scope of the Proposed ASU. Entities may have to change the accounting for the assets and liabilities of these consolidated entities, only to have them no longer be considered in scope because the FASB's consolidations project could change the consolidation conclusions for the same entities. Therefore, we believe no substantive changes should be made at this time related to measuring the assets or liabilities of CCFEs.

If the FASB agrees with our recommendation to revert to the Initial Proposal, our members currently following that measurement approach do not need any significant time for implementation. However, certain members currently following a different approach would need at least a year from the effective date to adopt. As described above, all of our members have significant operational concerns with the Proposed ASU. Therefore, our recommendation is to align the effective date of the final standard with the effective date of the two FASB projects discussed above. We believe an accelerated timeline for this proposal is not warranted because practice has generally evolved to ensure that the difference in fair value of the assets and liabilities of a CCFE unrelated to a reporting entity's beneficial interests is not recognized in net income.