



# News Release

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## American Securitization Forum Says Recent FASB Proposals on SPE Consolidation Would Produce Undesirable Accounting, Economic Outcomes

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**New York, NY**—In a comment letter filed last week, the American Securitization Forum raised concerns that recent proposals on consolidation of special- purpose entities, or SPEs, issued by the Financial Accounting Standards Board, or FASB, are problematic for the securitization market. The Forum believes that the proposals would distort financial statements of certain sponsors of SPEs that are formed to allocate risks of financial assets. The ASF also said FASB’s proposals could have negative economic consequences, given the important position securitizations occupy in the U.S. capital markets by providing value to consumers, businesses and investors.

The Forum supports FASB’s goals of increased transparency and comparability of financial statements but believes the proposals, if enacted in their current form, could be especially problematic for collateralized debt obligations (“CDOs”) and multi-seller commercial paper vehicles (“MSVs”). CDOs, MSVs and similar securitization transactions represent a large and critically important sector of the financial markets and broader economy, providing efficient funding mechanisms for issuers and high-quality investments to investors. These instruments and benefits are significantly at risk if FASB's consolidation standard is enacted as proposed.

The proposal would have negative economic effects because of the anticipated reluctance of many market participants to continue to participate in these types of transactions if they have to consolidate SPEs, which will result in potentially increased

cost and reduction of available credit to consumers and businesses who benefit from securitization, and the corresponding reduction in high-quality financial products available for investors.

The Forum cited numerous flaws in FASB's proposals, which are highlighted in the comment letter. Enactment of the proposal would inappropriately require consolidation of many SPEs, where risks have effectively been dispersed among numerous transaction participants, and where the consolidating entity neither has access to the assets of the SPE nor exposure to its liabilities.

“We strongly believe the most transparent and useful accounting is for each party to properly account for its respective rights and obligations related to the assets in the SPE, supplemented by disclosure about these rights and obligations,” commented Dwight Jenkins, executive director of the Forum.

The ASF proposes an alternative standard under which consolidation would be required only where a party has a majority of the variable interests of the SPE (rather than the current formulation, in which a minority holder that has a significant holding that is significantly more than the next largest holder would be required to consolidate). The ASF also recommends that each transaction participant should account for their particular component of the variable interests, supplemented by comprehensive footnote disclosure of all relevant rights and obligations that participant has with respect to the SPE. Finally, the Forum emphasizes that the "silo" approach set forth in the interpretation should be extended to administrators of MSVs, to avoid the risk that an administrator would need to consolidate the entire conduit, even if one or more individual sellers consolidates its own silo.

“Based on our conversations with market participants and observers,” noted Mr. Jenkins, “we believe an overly broad consolidation policy would not produce the most transparent accounting for many types of financial SPEs. Moreover, it would likely materially reduce activity in the collateralized debt obligation market and reduce activities by multi-seller SPEs. We urge FASB to consider these consequences as it finalizes its work.”

ASF members which include institutional investors among other professional market participants believe that the transparency and comparability of financial statements would not be assisted by overly broad requirements to consolidate financial SPEs. They equally support the view that footnote disclosure regarding an entity's rights and obligations with respect to an SPE is much more relevant and useful, and that in many cases consolidated balance sheets resulting from FASB's proposals would need to be "deconstructed" to evaluate an entity's true financial condition.

The entire comment letter is available at the Forum's website at:

[www.americansecuritization.com](http://www.americansecuritization.com).

An adjunct forum of The Bond Market Association, The American Securitization Forum is a broadly-based professional forum through which U.S. securitization market participants advocate their common interests. Among other roles, the ASF members act as issuers, underwriters, dealers, investors, servicers and professional advisors working on securitization transactions involving special-purpose entities.