JACK REED
RHODE ISLAND

COMMITTEES

APPROPRIATIONS
ARMED SERVICES
BANKING, HOUSING, AND URBAN AFFAIRS
HEALTH, EDUCATION, LABOR, AND PENSIONS

United States Senate

WASHINGTON, DC 20510–3903

Washington, DC:

728 Hart Senate Office Building
Washington, DC 20510–3903
(202) 224–4642

Rhode Island:

1000 Chapel View Boulevard, Suite 290
Cranston, RI 02920–3074
(401) 943–3100

One Exchange Terrace, Room 408
Providence, RI 02903–1773
(401) 528–5200

1 (800) 284–4200

TDD Relay Rhode Island
1 (800) 745–5555

http://reed.senate.gov

February 12, 2008

Sir David Tweedie
Chairman
International Accounting Standards
Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir Tweedie:

Investors and other participants in the U.S. and global capital markets depend on the accounting and disclosures standards of both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) standards to ensure they receive transparent financial accounting and reporting necessary for them to make informed decisions as to in which companies and capital markets they should invest. Unfortunately, some scandals in the recent past were found to have been facilitated by the engineering of transactions designed in a way that reduced transparency for investors by keeping liabilities off the balance sheets of companies. At the same time, lax accounting standards have facilitated financial reporting in which investors fail to receive important information regarding the effect these transactions can have on the liquidity, cash flows and income of a company, the key terms, conditions and events that can trigger such an impact, and the likelihood that an impact will occur in the reasonably foreseeable future. As a result, investors in both U.S. and foreign companies have been surprised by disclosures of structured investment vehicles and other special purpose entities set up to facilitate off balance sheet transactions. Equally surprising have been the magnitude of the risks involved with these transactions, including the amount of reported write-downs required by some companies.

Recent events arising from sub-prime lending, in which estimates of losses now ranging from $300 up to $400 billion, have only served to highlight the need of investors for timely and complete financial information regarding off balance sheet transactions and activities. At the same time, the lack of available of timely and high quality information appears be causing uncertainty and increased volatility in the capital markets. In particular, they appear to lack adequate and timely information regarding:

1. Structured investment vehicles often referred to as SIV's, their assets and obligations, and who is explicitly or implicitly responsible for the losses of an SIV, should they occur.

2. Special purpose entities involved in securitizations such as collateralized debt obligations (CDO's), their assets and obligations, and who is responsible for the losses of an SIV, should they occur.
3. The magnitude of losses to which a sponsor of an SIV or SPE may be exposed.
4. Changes in the values of securities and assets held by SIV's and SPE's, as well as predictive information available to management that would provide advance warnings to investors and the capital markets of potential or pending losses.
5. The explicit and/or implicit arrangements between a company that sponsors or creates an SIV or SPE, such as a guarantee or other form of support for the debt issued by the SIV or SPE, or a reconsideration of the contractual arrangement that could give rise to conditions under which a sponsor would incur losses (or gains) or a negative impact on the liquidity or income of the sponsor as a result of such arrangements.
6. Explicit or implicit arrangements, such as a liquidity put, that may result in a sponsor reacquiring assets "sold" to an SPE or SIV, raising questions as to whether a true economic sale occurred in the first place, or whether the structured transaction was merely done to evade accounting rules and hide liabilities from investors.

In testimony before the Senate Subcommittee Securities, Insurance, and Investment subcommittee of the Senate Banking, Housing and Urban Affairs Committee in October, 2007, you stated the IASB is working on those "…items identified as part of SEC report on off balance sheet items and as part of a recent study by the Committee of European Securities Regulators, such as consolidations…financial instruments, including derecognition." In the interest of improving transparency for investors, thereby enhancing the efficiency of the U.S. capital markets, it would be helpful for the subcommittee if the IASB would provide it with a written description of steps the IASB is currently taking to adopt improved standards that would result in:

1. Investors and the capital markets receiving in the near future, timely information regarding the effect off balance sheer financings can have on (a) the liquidity, cash flows and income of a company, (b) the key terms, conditions and events that can trigger such an effect, and (c) predictive information that will allow investors to make an assessment as to whether a material impact will likely occur in the reasonably foreseeable future, and the magnitude of such an impact.

2. Structured transactions such as those using SIV's or SPE's that are economically a financing for a company, but are structured in such as way as to hide them off balance sheet, to be reported on balance sheet in a transparent fashion that will provide investors with necessary information regarding the related assets, liabilities and related cash flows.

It would also be of assistance to the subcommittee, if the IASB would provide it with a written description of the key differences, as well as similarities, between the FASB and IASB accounting and disclosure standards for off balance sheet financing transactions such as those involving securitizations, SIV's and SPE's. It would be useful if the description would include a discussion of how the FASB's accounting model and principle of control would apply when judging whether or not to consolidate an SIV, or an SPE. Please include a discussion of how consolidation would be affected by implicit or explicit arrangements between the sponsor and SPE, liquidity puts to the sponsor, sponsor guarantees or other forms of support for debt of an SIV or SPE, or reconsideration events.

The IASB's continuing efforts to improve the financial reporting and disclosure for off balance sheet transactions is very important to investors and the capital markets. After the decline in investor confidence brought on by first Enron and then other corporate scandals, and now the subprime related issues, further disruption of the markets caused by a lack of transparency and failure to address some of these issues is unacceptable. I appreciate your attention to this matter and look forward to your response.

Sincerely,

Jack Reed
Chairman, Subcommittee on Securities,
Insurance, and Investments