



July 28, 2008

Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: Current Board Projects on FAS 140 and FIN 46(R)

Ladies and Gentlemen:

The Commercial Mortgage Securities Association (CMSA) appreciates the opportunity to work with FASB through the external review process with respect to proposed amendments to Statement 140 and Interpretation 46(R) and hopes to continue to provide substantive input and value to the FASB staff on these issues. Based on the Board's public discussions, however, we feel it is important to share our serious concerns with the Board's current course of action and the significant unintended consequences for our financial markets and the U.S. economy.

As you know, CMSA is the global trade organization for commercial real estate capital market finance. In the United States alone, there is almost \$1 Trillion in outstanding commercial mortgage-backed securities (CMBS). The organization's primary mission is to promote the ongoing strength, liquidity and viability of commercial real estate capital market finance worldwide. Based in New York, with a government relations office in Washington DC as well as a strong presence in Canada, Europe and Japan, CMSA is the voice for the industry, with a diverse global membership of over 400 member firms represented by more than 5,000 individuals who actively engage in commercial real estate capital market finance activities. These members embody the full spectrum of the CMBS market, including senior executives at the largest banks and investment banks, insurance companies, investors such as money managers and specialty finance companies, servicers, other service providers to the industry, and the rating agencies, including DBRS, Fitch Ratings, Moody's, Realpoint and Standard & Poor's. CMSA and its members are the leaders in setting standards and maintaining a favorable investing environment in the United States and abroad, and we submit these comments in an effort to further advance these dual objectives.

CMSA recognizes the seriousness of the market turmoil resulting from the residential subprime crisis and related issues, and we understand your desire to take quick action to address these problems. As you know, the Board has reached tentative decisions in its fast-tracked deliberations on Statement 140 and Interpretation 46(R) that would bring about sweeping changes to securitization accounting at a time when our markets are facing tremendous challenges. In addition to the specific issues outlined below, we also have broader-based concerns that introducing any changes at this time – even if implementation of those changes is delayed or phased-in over time – will serve only to further chill an already frozen real estate and other asset-backed securities markets. This seems especially imprudent at a time when business and policymakers are attempting to breathe life back into the markets.

As you are aware, the CMBS market uses QSPEs as the vehicles to securitize commercial mortgage loans. Other asset-backed securities within the \$9 trillion securitization markets (such as residential mortgages, home equity loans, student loans, auto loans and credit card receivables) also utilize QSPE accounting structures for securitization purposes. Like residential mortgaged-backed securities ("RMBS"), CMBS are bonds that are collateralized by pools of mortgage loans from which all of the principal and interest paid on those mortgages flows to investors. To create these investment vehicles, mortgage loans of varying dollar amounts, property type, and location are pooled and transferred to a trust. Bonds then are issued backed by the pool of assets held in the trust. Those bonds vary in yield (the amount of return on the bonds), duration (the length of time before the bond is expected to be paid off), and payment priority (the order in which investors are paid a return on their investment).

Use of a QSPE has enabled issuers of CMBS bonds to receive “sales treatment”, which allows the investors who purchase bonds to reflect the assets they own on their balance sheet. Based on the potential changes discussed thus far, we are concerned that investors may be forced to consolidate an entire pool of loans on their balance sheet despite owning only *a fraction* of the transaction. In 2007, the average size of a CMBS transaction was \$2.7 billion¹. Under the proposed changes, the investor owning the first-loss piece (averaging less than 2 percent of the deal), would be required to reflect on balance sheet the remaining 98% percent of the transaction that the investor does not own when the investor also serves as the special servicer. In addition, the consolidation obligation for investors may shift over time (if, for example, the lowest tranche in a deal is eliminated through defaults), potentially imposing this burden even on investment-grade buyers which inevitably could further erode market liquidity or stifle its resurgence due to investment-grade buyers’ reluctance and/or inability to bear this burden. Furthermore, there could be a substantial increase in regulatory capital requirements for bank issuers and investors that may also have significant liquidity implications.

We welcome efforts to reassess and improve disclosure and financial reporting. In fact, CMSA has been a leader in providing transparency to the CMBS market through the creation of our CMSA Investor Reporting Package (IRP®) that allows investors and other market participants at the initial time of securitization as well as on an on-going basis, to drill down and review each commercial real estate loan in a CMBS pool. This on-going surveillance also provides bond level information, such as updated bond balances, amount of interest and principal received on the bonds and bond ratings, as well as property level information such as current net rentable square feet, three largest tenants, date of last inspection and net cash flow. Investors also have access to many other sources of information from servicers, research firms like Trepp and Realpoint that accumulate and analyze data, and investment bank research departments, which essentially all CMBS investors utilize at some level to independently evaluate their investments and potential investments in this sector. With all the sources of transparency provided in the CMBS industry, investors can see through the bonds and mortgages to the collateral of the income producing properties and their performance, including the cash flow available to service the debt of the commercial mortgages. In keeping with our transparency standards, CMSA supports the supplemental disclosures recommended by various bodies in response to the recent market disruptions, which many reporting entities already have begun to provide.

Ultimately, CMSA strongly believes it essential that the Board take the time necessary to produce a standard that will result in an improvement to the accounting in this area, rather than imposing changes hastily that are not beneficial in the long run. It is CMSA’s position that these issues require full deliberation over a reasonable period of time given the impact on the U.S. financial markets and overall economy. As such, CMSA respectfully requests FASB to consider a timeframe of January 10, 2010 for finalizing any rule changes. This timeline, while still aggressive, would permit the full consideration of all policy alternatives, allow time for possible field testing of any proposal to ensure that policymakers and market participants can fully gauge the outcome of the proposal, and provide for a public comment period commensurate with the importance of the changes under consideration.

In closing, we again urge you to extend the timeframe for considering changes to Statement 140 and Interpretation 46(R) in order to allow for full deliberation of the proposed changes and complete understanding of their implications. CMSA believes such a reasonable and appropriate timeline for any final decision will lend itself to the creation of the most accurate accounting standard in the least disruptive manner.

Thank you for your consideration of our views.

Sincerely,



Dottie Cunningham
Chief Executive Officer
Commercial Mortgages Securities Association

Enclosure

¹ Commercial Mortgage Alert CMBS Database and Commercial Mortgage Securities Association internal data.

CC: Securities and Exchange Commission
Christopher Cox, Chairman
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Timothy F. Geithner, President