



St. Michael's House
1 George Yard
London EC3V 9DH
Great Britain/Großbritannien
Tel +44.20.77 43 93 00
Fax +44.20.77 43 93 01
www.europeansecuritisation.com

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Sir David Tweedie
Chairman
International Accounting Standards Board
166 Fleet Street
London EC4A 2DY
United Kingdom

Re: Consolidation and SIC 12

Dear Sir David:

As you may know, the European Securitisation Accounting Subcommittee of the ESF met with the IAS 39 Working Group of the IASB on 28. February 2002, to discuss numerous accounting issues related to securitisation. The meeting was a fruitful and constructive dialogue between markets participants, active in the European securitisation market, and the IASB. As we mentioned in our previous letter of 30. October 2002, the ESF has on several occasions had similar meetings with regulators and other standard setters, and is consistently recognised as the representative voice for the European securitisation market.

In our discussion with the IAS 39 Working Group of the IASB, we were informed about some of the potential changes proposed to the current IAS 39, which will be published in an Exposure Draft. We understand that one of the more significant changes proposed in the forthcoming Exposure Draft, particular to the European securitisation market, will be to the derecognition criteria. Whereas the IAS 39 Exposure Draft was initially to be published sometime in April 2002, we now understand the publication of the Exposure Draft is scheduled to be sometime in June 2002.

Parallel to the revision effort with respect to IAS 39, we also have been informed that the IASB is currently considering whether to revisit SIC 12, and if so, whether SIC 12 should be revisited separately or as part of a larger consolidation project.

As you may know, the securitisation industry is increasingly concerned that IAS 27, SIC 12 and IAS 39 when taken together -- and particularly the mingling of the tests of control and risk and rewards which underlie the recognition / derecognition principles and the consolidation requirements discussed under SIC 12 -- produce apparent inconsistencies. Specifically, European securitisation market participants are concerned that the current situation:

- Gives rise to uncertainty about the consistent application of the same accounting principles to the same, or substantially similar, circumstances;
- Gives rise to anomalous results (e.g. the same set of securitised assets can, in certain circumstances, be consolidated on two or even three companies' balance sheets, for example in certain conduit related transactions).

These concerns were carefully illustrated and articulated in four different accounting examples, prepared by the European Securitisation Accounting Subcommittee, when meeting with



the IAS 39 Working Group. The examples particularly highlighted the fact that SIC 12 appears to leave all securitised assets on balance sheet, even though a major transaction had taken place with those assets, and illustrated the divergence between IAS 39 and SIC 12 which can lead to inconsistent accounting. SIC 12 determines that all assets of an SPE have to be consolidated and brought back on the balance sheet of the controlling enterprise, if the enterprise is alleged to have any control of the SPE, either economically or legally. In effect, this produces a different accounting approach than that foreseen under IAS 39 and creates an inaccurate reflection on the balance sheet of the true economic situation -- that a securitisation has taken place.

Given that the new IAS 39 Exposure Draft does not, as we understand it, address the issue of consolidation and, as mentioned above, the IASB is currently in the process of deciding whether SIC 12 should be revisited, we would like to reiterate the importance of, and the need for, a more consistent approach as soon as possible. We believe that the best approach is to have one standard that deals with the transfer of final instruments but if such a standard is to be delayed, SIC 12 needs to be revised.

Yours sincerely,

Valerie Belhassen
Co-Chairwoman, ESF European Securitisation Accounting Subcommittee
BNP Paribas

Peter Jeffery
Co-Chairman, ESF European Securitisation Accounting Subcommittee
and Partner, PriceWaterhouseCoopers

Scott Christopher Rankin
Executive Director, European Securitisation Forum

cc: John Smith, *Chairman IAS 39 Working Group of the IASB*
Members of the ESF European Securitisation Accounting Subcommittee
Members of the ESF Executive Committee
Members of the Legal Regulatory and Capital Subcommittee