



LETTER OF COMMENT NO. //

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Financial Accounting Standards Board
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File Reference: Proposed FSP FAS 140-d

Mr. Golden:

RBS Greenwich Capital ("RBSGC") appreciates the opportunity to provide comments on the FASB's ("the Board's") proposed FASB Staff Position FAS 140-d, *Accounting for Transfers of Financial Assets and Repurchase Finance Transactions* ("FSP FAS 140-d"). RBSGC does not support the issuance of FSP FAS 140-d based on the concerns and implementation issues addressed in this letter.

RBSGC is a full service fixed income financial services firm and a subsidiary of the Royal Bank of Scotland Group plc ("RBS"). RBSGC is an active participant, as both a market maker and finance provider, in the US Treasury, US Agency, Mortgage and Asset Backed, and Corporate Debt markets. As a subsidiary of RBS, RBSGC complies with International Financial Reporting Standards ("IFRS") for inclusion in RBS' consolidated financial statements; however, for local statutory reporting to both regulators and customers, RBSGC also complies with US GAAP.

FSP FAS 140-d Theoretical Concerns and Implementation Issues:

RBSGC believes FSP FAS 140-d has theoretical flaws and the practical application of FSP FAS 140-d will be difficult to achieve. In addition, RBSGC believes the proposed FSP FAS 140-d should be deferred indefinitely and addressed in conjunction with the larger 'Transfers of Financial Assets' project the Board is already debating. The proposed FSP FAS 140-d is a temporary solution that will require significant cost and effort to comply.

Specifically, RBSGC believes the following theoretical concerns and implementation issues exist that make compliance as currently proposed problematic:

1. Definition of Repurchase Agreement

RBSGC considers the explanation of a Repurchase Agreement (reference to paragraph 97 of FAS 140) to be too broad and vague. RBSGC recommends that the Board consider a more precise definition of a Repurchase Agreement as provided by FASB Interpretation Number 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. A more specific definition would avoid the linkage of unintended transactions.

2. Proposed Linkage Model is Inconsistent with Other Existing US GAAP Linkage Models

RBSGC believes the linkage model proposed in FSP FAS 140-d is inconsistent with the linkage models that currently exist in other areas of US GAAP. The proposed linkage model appears to be based solely on control and does not consider risk and rewards transferred or retained in two or more transactions. The linkage models expressed under EITF 98-15 "Structured Notes Acquired for a Specified Investment Strategy" ("EITF 98-15") and Statement No. 133 Implementation Issue No. K1 "Determining Whether Separate Transactions Should Be Viewed as a Unit" ("DIG Issue K1") consider primarily risk and rewards transferred as indicators for linkage. RBSGC acknowledges that FAS 140 is a "control based" model; however, FAS 140 should be viewed separately and distinct from any linkage model. The linkage of two or more transactions must consider the risk and rewards of those transactions, as the risk and rewards are the primary motivation for those transactions. The proposed "control-only" model for linkage under FSP FAS 140-d ignores integral risk and reward characteristics of a set of transactions. RBSGC recommends the Board reconsider the risk and rewards model for linkage such that it remains consistent with existing US GAAP models (e.g. DIG Issue K1). Furthermore, other existing US GAAP models have approached linkage using a more "facts and circumstances" based approach by presenting "indicators" for linkage rather than a rigid, "all or nothing" requirement based approach as laid out in FSP FAS 140-d.

Further it is RBSGC's view that a control approach to linkage also deviates from IFRS which takes a primarily risk and rewards approach to de-recognition. The result for RBS and other foreign filing institutions, that are required to maintain accounting records under IFRS and US GAAP, is that the proposed FSP will place a significant burden on these institutions to account for a significant volume of transactions on radically different bases.

3. Timing between Transfer of Financial Asset and Repurchase Finance Transaction

Paragraph 4 states:

"The repurchase financing may be entered into simultaneously with the initial transfer or may occur at a later date. The lapse of time between the initial transfer and the repurchase agreement is not relevant."

RBSGC respectfully disagrees with the notion that the lapse of time between the initial transfer and the repurchase agreement is not relevant. Timing, which may be impacted by current market conditions, is one of the most relevant factors to any decision to transfer a financial asset or enter into a repurchase transaction. The current market condition is integral to the motivation and intent of a transaction. Accounting, by its very nature, should be driven by the substance and intent of each transaction. To alter a previous accounting conclusion for de-recognition because some time (for example 1 to 5 years) after the initial transfer a repurchase transaction is entered into with same counterparty on the same underlying asset seems inappropriate, especially given the possibility for a drastic change in market conditions between the two dates. Additionally, the principal amounts of the transfer and the repurchase financing could be different due to (1) principal paydowns of amortizing securities; (2) the customer wanting to finance a lesser principal amount than it purchased; and (3) the customer having purchased additional amounts of the same security from other dealers, that they now want to finance. With every change in market conditions the motivation for the subsequent repurchase transaction is altered. Furthermore, the risk profile of the underlying asset can fluctuate considerably between the two transaction dates.

At a minimum, operationally it is imperative that a limit on the lapse of time between the initial transfer and repurchase agreement be put in place. Accounting guidance that requires a firm to continuously search *all life to date transactions with a particular counterparty* each time a new repurchase transaction is put in place to identify impacted transactions, is not practical. Under the proposed FSP FAS 140-d, life to date transaction histories would be required to be kept in current databases for ready and regular reference and could not be cost effectively archived after certain time limits are met.

Additionally, large, multi-national organizations like RBS, would have significant information technology hurdles to interface multiple transaction systems to readily assess linkage of cross-border financial asset transfers and subsequent repurchase agreements. In the absence of multi-faceted interfaces between

the various transaction systems and the ability to definitively link a transfer of a financial asset with a subsequent repurchase agreement, an entity would have to make calculated assumptions that any repurchase agreement with predefined customers would need to be linked to an assumed transfer, not a specifically identified transaction. Such an assumption based approach may be inappropriate and susceptible to criticism in regards to Sarbanes-Oxley 404.

If the current control approach to linkage is retained, RBSGC recommends, at a minimum, a more manageable timeframe (e.g. same transaction date) between the transfer of a financial asset and the subsequent repurchase be considered in the analysis for linkage. The current requirement to assess all transactions within a limitless timeframe is unreasonable.

4. Paragraph 7c

Paragraph 7c states:

"The financial asset subject to the initial transfer and repurchase financing has a quoted price in an active market (Level 1 inputs as defined in FASB Statement No. 157, *Fair Value Measurements*). In addition, the initial transfer of a financial asset and the repurchase financing are executed at market rates."

RBSGC believes the scope out requirement that the financial asset subject to the initial transfer and subsequent repurchase financing have a quoted price and be classified as Level 1 is too narrow and is further inconsistent with a control model for linkage. The availability of a quoted price for a particular financial asset is a weak indicator as to whether or not an entity retains control of that financial asset. The uniqueness of a financial asset and the ability or inability to readily obtain the asset in RBSGC's opinion is a more appropriate indicator of control. There are Level 2 financial assets that are common in the market place and easily obtainable that would currently not meet the scope out exception in FSP FAS 140-d. However, these Level 2 financial assets would have significantly different accounting conclusions under the proposed FSP even though the Level 2 assets are no more or less controlled by the seller/lender than a Level 1 asset would be controlled. RBSGC recommends that the scope out requirement in paragraph 7c be expanded to include Level 2 financial assets that are readily attainable.

5. November 15, 2007 Effective Date

Aside from a deferment to the 'Transfer of Financial Assets' project, RBSGC believes the effective date of the first fiscal year beginning after November 15, 2007 should be extended. The implementation of the proposed FSP FAS 140-d as currently drafted or modified will require significant changes to information technology systems and coordination on a global level with multiple accounting, treasury, operations and front office personnel to ensure compliance, especially considering the challenging nature of some of the aspects of the FSP detailed above. At a minimum, RBSGC recommends a one year deferment of the proposed effective date to fiscal years beginning after November 15, 2008.

6. Retrospective Application

RBSGC believes the obligation to apply the proposed FSP to existing repurchase transactions and apply a cumulative-effect adjustment is excessive and provides marginal, if any, benefit to the financial reporting process and users of financial statements. The vast majority of repurchase financings are very short term in nature (i.e. less than a week) and to require an organization to exert significant time and effort analyzing all of their existing repurchase agreements is unnecessary. A prospective application of the new guidance to all *new* financing transactions would be more productive and would produce a materially similar result. RBSGC recommends a prospective transition application for all *new* financing transactions.

Thank you for your consideration on this matter and should you have any questions or comments, please do not hesitate to contact me at (203) 618-2585.

Sincerely,



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Managing Director and Chief Financial Officer