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Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2013-210**

**Re: Proposed Accounting Standards Update, *Effective Control for Transfers With Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Effective Control for Transfers With Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*.

We support the Board's objective of improving the accounting for and disclosures about repurchase agreements. However, we have concerns about certain aspects of the proposed ASU and do not believe that it should be finalized in its current form.

As described in greater detail in the appendix below, our primary concerns are that the proposed amendments:

- Establish an exception to the effective-control model for transfers of financial assets with forward agreements to repurchase these assets at their maturity (repurchase-at-maturity transactions) that would not be consistently applied to economically similar transactions.
- Do not reflect the economics of repurchase financing transactions and conflict with other guidance on transactions that are executed contemporaneously.
- Potentially require disclosures that would include an overly broad range of information about transactions that involve financial instruments that are not substantially the same.

We recommend that in the short term the Board address the concerns of financial statement users by adding disclosure requirements about forward commitments, including repurchase agreements. Such additional requirements may be more effective and less disruptive, and may result in greater consistency, than the amendments in the proposed ASU. However, we believe that in the longer-term, instead of further modifying the effective-control model just for repurchase-at-maturity agreements, the Board should reconsider the accounting for repurchase agreements as part of a broader project on derecognition of financial instruments. In that project, the Board should reexamine whether there is a need to differentiate between repurchase agreements and other sales of financial instruments with other forms of continuing involvement. A single model for the derecognition of financial instruments that is grounded in principles consistent with the conceptual framework's definition of assets and liabilities and supported by appropriate disclosures (or presentation) should (1) yield results that are more decision-useful than the proposed model, (2) be less complicated to apply, and (3) foster the application of similar accounting to similar economic transactions.

If the Board moves forward with the proposed ASU in its current form, we recommend that it reassess or clarify the operationality of the proposed guidance on the “substantially the same” criteria for transactions involving to-be-announced securities.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Adrian Mills at (203) 761-3208.

Yours truly,

Deloitte & Touche LLP

cc: Bob Uhl

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Questions**

***Question 1: This proposed Update would amend the effective control guidance in paragraphs 860-10-40-5(c)(1) and 860-10-40-24 to require that transactions that involve a transfer of a financial asset with an agreement that both entitles and obligates a transferor to repurchase or redeem the transferred asset at the maturity of the transferred financial asset would maintain the transferor's effective control. Therefore, those transactions would be accounted for as a secured borrowing. Do these proposed amendments represent an improvement in financial reporting?***

These proposed amendments do not improve financial reporting. On the contrary, they introduce complexity into U.S. GAAP by further deviating from the effective-control model. In addition, because they lack a clear principle that can be consistently applied, the proposed amendments would result in different accounting for repurchase agreements depending on the timing of the net cash settlement (i.e., before or at maturity). The proposed ASU asserts that a repurchase-at-maturity transaction is a borrowing even though the selling entity never receives the previously held financial asset in the future. Arguably, effective control has been lost, but because the risk and rewards have not transferred to the buying entity, sale accounting is precluded. Yet, it appears that if the arrangement permits or requires net cash settlement any time before maturity, the arrangement is still eligible for sale accounting despite the selling entity's having retained all the risks and rewards for the arrangement for what can be substantially all of the financial asset's term.

We recommend that as a longer-term measure, the Board reconsider the accounting for repurchase agreements as part of a broader project on derecognition of financial instruments. In that project, the Board should reexamine whether there is a need to differentiate between repurchase agreements and other sales of financial instruments with other forms of continuing involvement. We encourage the Board to consider alternatives that are consistent with the definitions of assets and liabilities.

Some of these alternatives might include:

- Considering how the forward purchase agreement settles. Simultaneous transfers of assets and initiation of forward purchase agreements that require net cash settlement (whether at maturity or before) would be accounted for as sales, with forward repurchase commitments accounted for as derivatives. Similar agreements that require (or give the "lender" the option of) delivery of the financial asset in exchange for cash (i.e., gross settlement) would be accounted for as borrowings.
- Derecognizing the transferred financial asset and accounting for the forward agreement to purchase as a separate asset (right to receive the financial asset) and liability (obligation to pay for the financial asset). Some refer to this as "grossing-up" the forward.

Because a comprehensive project on the derecognition of financial instruments may take significant time and the Board may not have the capacity to add to such project to its agenda in the near future, the Board should consider developing additional disclosure requirements about forward commitments, including repurchase agreements, as a short-term project. Adding such requirements may be more effective and less disruptive, and may result in greater consistency, than the amendments in the proposed ASU.

***Question 2: Do you agree with the limited amendment of the condition for derecognition related to effective control in paragraphs 860-10-40-5(c) and 860-10-40-24? That is, do you agree with the application of secured borrowing accounting to the transactions described in Question 1 and not to other transactions resulting in similar risks and rewards for the transferor (for example, regardless of the form of settlement or whether the settlement date of the repurchase agreement is before, on, or after the maturity date of the transferred financial assets)? If not, what approach for assessing***

***derecognition for transactions that involve transfers of financial assets with agreements that entitle and obligate the transferor to repurchase or redeem the transferred assets would be an improvement to the proposed approach?***

We do not agree with the limited amendment described in this question. See our response to Question 1 above.

***Question 3: This proposed Update would require that an initial transfer and a repurchase agreement that relates to a previously transferred financial asset between the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer (a repurchase financing) be accounted for separately. Would separate accounting for the initial transfer and repurchase financing reflect the economics of those agreements? Do these proposed amendments represent an improvement in financial reporting?***

Separate accounting for the initial transfer and repurchase financing may not reflect the economics of these arrangements and potentially conflicts with other guidance that addresses transactions that are executed contemporaneously. We recommend retaining the current guidance on repurchase financing arrangements in ASC 860-10-40-42 through 40-47, which is consistent with the guidance in ASC 815-10-15-8 through 15-9 on viewing two or more contracts as a unit.

***Question 4: The Board affirmed that, consistent with existing guidance, effective control would be maintained by a transferor if the transferee returns a financial asset that is —substantially the same as the initially transferred financial asset. Should the return of financial assets that are substantially the same maintain the transferor’s effective control over transferred financial assets? Why or why not?***

We would prefer that the Board reconsider the effective control exception in ASC 860 for repurchase agreements as part of a longer-term, broader project on derecognition of financial instruments (see our response to Question 1). This includes reconsidering whether sale accounting (derecognition of the transferred asset) should be precluded solely because the asset that will be returned might be substantially the same. In addition, the substantially-the-same analysis is difficult in practice (e.g., evaluating prepayment characteristics for to-be-announced securities), and minor differences in terms without significant differences in the economic risks can result in significantly different accounting. If the Board moves forward with the proposed ASU, we recommend that in the interim it clarify the proposed amendments related to this matter (see our response to Question 5).

***Question 5: The Board decided that the characteristics that must be satisfied for a financial asset to be substantially the same in paragraph 860-10-40-24A should result in identifying those transactions in which a transferor is in economically the equivalent position with the return of a substantially-the-same asset compared with the return of the identical asset. Do the proposed amendments to the substantially-the-same characteristics help clarify how those characteristics should be applied? If not, what additional clarifications are needed? Does the implementation guidance related to the substantially-the-same characteristics in paragraph 860-10-55-35 provide appropriate clarifications related to the characteristics and their application? Is the implementation guidance operable? If not, what additional guidance is needed?***

See our response to Question 4 for our preferred longer-term approach. We do not object to the Board’s retention of the principle underlying the current substantially-the-same assessment until a more comprehensive project is completed on the derecognition of financial instruments. However, if the Board moves forward with the proposed ASU in its current form, it should clarify the proposed amendments to ASC 860-10-55-35(c), under which (1) “anticipated prepayment characteristics” must be considered in the determination of whether the asset to be repurchased is substantially the same and (2) an entity may consider

“historical data . . . in assessing whether the security to be repurchased would result in approximately the same market yield as the security initially transferred.”

Our concern is that this analysis may not be operational or necessary when repurchase agreements permit latitude about what underlying financial assets (e.g., loans) support the financial asset that will be delivered. In particular, the analysis may be questionable when transactions involve the delivery of to-be-announced financial assets. In other words, the exact loans that would support a security may not have been established yet, and the prepayment characteristics could vary. We therefore recommend that the Board further clarify how entities should consider this uncertainty (latitude) in their analysis. Some uncertainty might be sufficient for an entity to conclude that a security to be delivered is not substantially the same even if history shows that what is delivered would have been considered substantially the same (e.g., the seller cannot control the terms, within a narrow band, of the asset to be received).

We also recommend that the Board continue to solicit input from counterparties (e.g., mutual funds) to these arrangements to understand (1) the typical terms (including the amount of uncertainty with respect to prepayment or other characteristics), (2) the availability of historical information, and (3) operational challenges that entities and their auditors may face if changes are made to the accounting for these arrangements.

***Question 6: The Board decided that for transfers with agreements that both entitle and obligate the transferor to repurchase transferred financial assets that maintain a transferor’s effective control and are accounted for as secured borrowings, the transferor should disclose the gross amount of the total borrowing disaggregated on the basis of the class of financial assets pledged as collateral. Would this proposed disclosure provide decision-useful information? If not, what disclosures, if any, about these transactions should be required and why?***

The gross amount of the total borrowing, disaggregated on the basis of the class of financial assets pledged as collateral for repurchase agreements that (1) maintain a transferor’s effective control and (2) are accounted for as secured borrowings, would be decision-useful information for users of the financial statements. Such information would give users of financial statements a better understanding of the relationship between the financial assets pledged as collateral and the related borrowing.

***Question 7: The Board decided that for transfers with agreements that both entitle and obligate a transferor to repurchase transferred financial assets that are accounted for as sales and forward repurchase agreements solely because the asset to be reacquired is not substantially the same as the initially transferred asset, the transferor should disclose the carrying amount of assets derecognized during the reporting period. Would this proposed disclosure provide decision-useful information? If so, should the scope of this proposed disclosure requirement be expanded to explicitly include all transfers of financial assets with agreements to repurchase the transferred assets that are accounted for as sale transactions? What additional information about those transactions, if any, should be disclosed?***

An entity’s financial commitments are a key component of financial statement analysis, and we support the Board’s efforts to improve disclosures about them. However, the proposed ASU may be difficult to apply because proposed ASC 860-30-50-3(b) might require an entity to attempt to track a broad range of items that do not meet the substantially-the-same requirements of proposed ASC 860-10-40-24A. In other words, the requirement does not appear to limit the disclosure to situations in which determining whether the repurchased asset was substantially the same was a “close call.” The asset to be purchased in the future from the counterparty could be completely different. Entities with numerous transactions involving sales of financial assets and that are entering into forward purchase agreements may have difficulty trying to match contemporaneous sales and forwards with the same counterparty. In addition, it is not clear that users of financial statements would want disclosure only in those limited circumstances. Hence, we recommend that the Board consider developing broader disclosure requirements about forward commitments to purchase financial assets.

If the Board retains the disclosure requirement in proposed ASC 860-30-50-3(b), it should clarify that such disclosure is required only for unsettled repurchase agreements as of the balance sheet date (and not for **all** activity “during the reporting period”). Providing quantitative information about all activity during the reporting period is potentially challenging. The Board could consider requiring entities to disclose additional qualitative information about whether the level of activity “during the reporting period” differs significantly from that at period-end.

***Question 8: Do you foresee any significant operability or auditing issues in complying with the proposed disclosures?***

See our response to Question 7.

***Question 9: Do you agree with the transition provisions in this proposed Update? If not, why?***

We agree with the proposed transition.

***Question 10: Should early adoption be permitted? If not, why? Should this be the case for both public entities and nonpublic entities?***

We would not object to early adoption for either public or nonpublic entities.

***Question 11: Should the effective date be the same for both public entities and nonpublic entities? If not, why?***

The effective date should be the same for both public and nonpublic entities.