

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2014-11
June 2014

Transfers and Servicing (Topic 860)

Repurchase-to-Maturity Transactions,
Repurchase Financings, and Disclosures

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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CONTENTS

	Page Numbers
Summary	1–5
Amendments to the <i>FASB Accounting Standards Codification</i> ®	7–35
Background Information and Basis for Conclusions	36–59
Amendments to the XBRL Taxonomy	60

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board's objective in issuing the amendments in this Update is to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. Stakeholders expressed concern that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. In particular, repurchase-to-maturity transactions are generally accounted for as sales with forward agreements under current accounting, whereas typical repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. Additionally, current accounting guidance requires an evaluation of whether an initial transfer of a financial asset and a contemporaneous repurchase agreement (a repurchase financing) should be accounted for separately or linked. If linked, the arrangement is accounted for on a combined basis as a forward agreement. Those outcomes often are referred to as off-balance-sheet accounting.

Stakeholders noted that no accounting distinctions between different types of repurchase agreements are warranted because in all types of repurchase transactions the transferor in the repurchase agreement retains exposure to the transferred financial assets and obtains important benefits of those assets throughout the term of the transaction. The amendments in this Update change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

Who Is Affected by the Amendments in This Update?

The accounting changes in the amendments affect all entities that enter into repurchase-to-maturity transactions or repurchase financings. All entities are subject to new disclosure requirements for certain transactions that involve a transfer of a financial asset accounted for as a sale. All entities also are subject to new disclosure requirements for repurchase agreements, securities lending

transactions, and repurchase-to-maturity transactions accounted for as secured borrowings.

What Are the Main Provisions?

The amendments in this Update require two accounting changes. First, the amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement.

The amendments in this Update require disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For those transactions outstanding at the reporting date, the transferor is required to disclose the following by type of transaction (for example, repurchase agreements, securities lending arrangements, and a sale with a total return swap):

1. The carrying amount of assets derecognized as of the date of derecognition
2. The amount of gross proceeds received by the transferor at the time of derecognition for the assets derecognized
3. The information about the transferor's ongoing exposure to the economic return on the transferred financial assets
4. The amounts that are reported in the statement of financial position arising from the transaction, such as those represented by derivative contracts.

The amendments in this Update also require the following disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings:

1. A disaggregation of the gross obligation by the class of collateral pledged
2. The remaining contractual tenor of the agreements
3. A discussion of the potential risks associated with the agreements and the related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The accounting changes in this Update will expand secured borrowing accounting for certain repurchase agreements. Under current U.S. GAAP, repurchase agreements that mature at the same time as the transferred financial asset (a repurchase-to-maturity transaction) generally are not considered to maintain the transferor's effective control. If the remaining conditions for derecognition are satisfied (that is, isolation and the transferee's right to pledge or exchange the asset), those transfers of financial assets currently are accounted for as a sale and a forward repurchase agreement (generally, a derivative under Topic 815, Derivatives and Hedging). The amendments in this Update change the current accounting outcome by requiring repurchase-to-maturity transactions to be accounted for as secured borrowings. This change will result in greater consistency in the accounting for those transactions when compared with the accounting treatment for other repurchase agreements.

Additionally, under current U.S. GAAP, a repurchase financing (a type of repurchase agreement) executed contemporaneously with an initial transfer with the same counterparty generally is accounted for as a derivative if the two transactions are required to be linked in their accounting. The amendments in this Update require that in a repurchase financing arrangement the repurchase agreement be accounted for separately from the initial transfer of the financial asset. This will result in the initial transferor accounting for the initial transfer as a sale of a financial asset (if all derecognition criteria are met) and the initial transferee accounting for the initial transfer symmetrically as a purchase, with both parties accounting for the repurchase agreement component of the transaction as a secured borrowing. The Board decided that secured borrowing accounting for a repurchase agreement executed as a repurchase financing transaction more accurately reflects the economics of the repurchase agreement as a financing transaction and most faithfully represents the position of the parties to the transaction as a lender and borrower of funds. Furthermore, secured borrowing accounting for a repurchase-to-maturity transaction executed as a repurchase financing will result in consistent accounting treatment with other repurchase-to-maturity transactions.

Current U.S. GAAP requires disclosures about the transferor's continuing involvement with transferred financial assets and certain disclosures about collateral pledged in various types of secured lending agreements. The amendments in this Update set forth two new disclosure requirements to respond to the needs of users of financial statements for additional disclosures for repurchase agreements and similar transactions. An entity is required to disclose information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the

transferred financial assets through an agreement with the same counterparty. Those disclosures will provide users of financial statements with information to compare those types of transactions accounted for as sales with similar transactions accounted for as secured borrowings. An entity also will be required to disclose information about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. Those disclosures will provide transparency about the types of collateral pledged in the agreements and the associated liability.

When Will the Amendments Be Effective?

The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. For all other entities, the accounting changes are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited; however, all other entities may elect to apply the requirements for interim periods beginning after December 15, 2014.

For public business entities, the disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. For all other entities, both new disclosures are required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The model for derecognition of financial assets in IFRS has a different conceptual basis from the model in U.S. GAAP. Under IFRS, a transferor must first evaluate the extent to which it retains the “risks and rewards” of ownership of the transferred financial asset. If a transferor retains *substantially all* of the risks and rewards of ownership, the transferor would continue to recognize the transferred financial asset (that is, the transfer is accounted for as a secured borrowing). If the transferor transfers substantially all of the risks and rewards, it would derecognize the financial asset (that is, the transfer is accounted for as a sale). However, if the transferor has neither retained nor transferred substantially

all the risks and rewards, it must determine whether it has retained control of the transferred financial asset. In contrast, the derecognition model in U.S. GAAP primarily focuses on control with limited consideration of risks and rewards. The Board's decision to require secured borrowing accounting for repurchase-to-maturity transactions results in a converged outcome for this type of transaction because substantially all the risks and rewards under IFRS are typically considered to be retained by the transferor, resulting in a requirement for secured borrowing accounting. However, the derecognition model in IFRS is expected to result in secured borrowing accounting for a broader spectrum of transactions with attributes similar to repurchase agreements relative to U.S. GAAP because it primarily considers the risks and rewards retained by the transferor.

The amendments in this Update require an entity to provide new disclosures for certain transactions that involve (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. Consequently, users will have information to compare the accounting results for similar transactions that are accounted for as sales under U.S. GAAP and as secured borrowings under IFRS. The new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are similar to existing disclosure requirements under IFRS. Under IFRS, when an entity continues to recognize all of the transferred assets, the carrying amounts of the transferred financial assets and associated liabilities are required to be disclosed for each class of transferred financial assets. For all transferred financial assets not derecognized in their entirety, an entity is required to disclose for each class of transferred financial assets certain qualitative information, including the nature of the transferred assets and the risks and rewards of ownership to which the entity is exposed. IFRS also sets forth a quantitative disclosure that requires an entity to disclose the remaining contractual maturities for nonderivative financial liabilities and those derivative financial liabilities for which that information is essential to understanding the timing of cash flows. The contractual maturity analysis in IFRS is not specific to repurchase agreements or securities lending arrangements, as it is in the amendments in this Update, and includes a broader range of financial liabilities.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–23. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary term *Repurchase Agreement*, with a link to transition paragraph 860-10-65-5, as follows:

Repurchase Agreement

An agreement under which the transferor (repo party) transfers a ~~security~~ **financial asset** to a transferee (repo counterparty or reverse party) in exchange for cash and concurrently agrees to reacquire that ~~security~~ financial asset at a future date for an amount equal to the cash exchanged plus or minus a stipulated interest factor. Instead of cash, other securities or letters of credit sometimes are exchanged. Some repurchase agreements call for repurchase of ~~securities~~ financial assets that need not be identical to the ~~securities~~ financial assets transferred.

3. Add the new Master Glossary term *Repurchase-to-Maturity Transaction*, with a link to transition paragraph 860-10-65-5, as follows:

Repurchase-to-Maturity Transaction

A **repurchase agreement** in which the settlement date of the agreement to repurchase a transferred financial asset is at the maturity date of that financial asset and the agreement would not require the transferor to reacquire the financial asset.

Amendments to Subtopic 860-10

4. Supersede paragraphs 860-10-05-21A through 05-21B and their related heading, with a link to transition paragraph 860-10-65-5, as follows:

Transfers and Servicing—Overall

Overview and Background

~~>>> Repurchase Financings~~

~~860-10-05-21A Paragraph superseded by Accounting Standards Update 2014-11. A **repurchase financing** involves the transfer of a previously transferred financial asset back to the initial transferor as collateral for a financing between the initial transferee (the borrower) and the initial transferor (the lender). A repurchase financing also typically involves the initial transferor returning the transferred financial asset, or substantially the same asset (see paragraph 860-10-40-24(a)) to the initial transferee when the financing is repaid on a stated date.~~

~~860-10-05-21B Paragraph superseded by Accounting Standards Update 2014-11. If a transferor transfers a financial asset and also enters into a repurchase financing with the transferee, there are typically three transfers of the financial asset:~~

- ~~a. Initial transfer. An initial transferor transfers a financial asset to an initial transferee.~~
- ~~b. Execution of a repurchase financing. The initial transferee (the borrower) transfers the previously transferred financial asset back to the initial transferor (the lender) as collateral for a financing between the initial transferor and initial transferee.~~
- ~~c. Settlement of the repurchase financing. The initial transferor (the lender) returns the financial asset (or substantially the same asset) to the initial transferee (the borrower) upon receipt of payment from the initial transferee.~~

~~The diagram in paragraph 860-10-55-17A depicts these three transfers of a financial asset.~~

5. Amend paragraphs 860-10-40-1 and 860-10-40-5, supersede (and move) paragraphs 860-10-40-4A through 40-4B, and add paragraphs 860-10-40-4C through 40-4E and paragraph 860-10-40-5A, with a link to transition paragraph 860-10-65-5, as follows:

Derecognition

860-10-40-1 This Section sets forth the conditions for derecognition of a **transferred financial asset** and is organized as follows:

- a. Subparagraph superseded by Accounting Standards Update No. 2009-16
- b. Conditions for a sale of **financial assets**
- c. Application of the sale criteria to instruments that have the potential to be assets or liabilities
- d. Circumstances that result in a **transferor** regaining control of assets previously sold
- e. Subparagraph superseded by Accounting Standards Update 2014-11.
Repurchase financings.

> Conditions for a Sale of Financial Assets

860-10-40-4 The objective of the following paragraph and related implementation guidance is to determine whether a transferor and its **consolidated affiliates** included in the financial statements being presented have surrendered control over **transferred financial assets** or third-party **beneficial interests**. This determination:

- a. Shall first consider whether the **transferee** would be consolidated by the transferor (for implementation guidance, see paragraph 860-10-55-17D)
- b. Shall consider the transferor's continuing involvement in the transferred financial assets
- c. Requires the use of judgment that shall consider all arrangements or agreements made contemporaneously with, or in contemplation of, the **transfer**, even if they were not entered into at the time of the transfer.

With respect to item (b), all continuing involvement by the transferor, its consolidated affiliates included in the financial statements being presented, or its **agents** shall be considered continuing involvement by the transferor. In a transfer between two subsidiaries of a common parent, the transferor-subsidiary shall not consider parent involvements with the transferred financial assets in applying paragraph 860-10-40-5.

860-10-40-4A Paragraph superseded by Accounting Standards Update 2014-11. ~~To be eligible for sale accounting, an entire financial asset cannot be divided into components before a transfer unless all of the components meet the definition of a **participating interest**. The legal form of the asset and what the asset conveys to its holders shall be considered in determining what constitutes an entire financial asset (for implementation guidance, see paragraph 860-10-55-17E). An entity shall not account for a transfer of an entire financial asset or a participating interest in an entire financial asset partially as a sale and partially as a secured borrowing. [Content moved to paragraph 860-10-40-4D]~~

860-10-40-4B Paragraph superseded by Accounting Standards Update 2014-11. ~~If a transfer of a portion of an entire financial asset meets the definition of a participating interest, the transferor shall apply the guidance in the following paragraph. If a transfer of a portion of a financial asset does not meet the~~

~~definition of a participating interest, the transferor and transferee shall account for the transfer in accordance with the guidance in paragraph 860-30-25-2. However, if the transferor transfers an entire financial asset in portions that do not individually meet the participating interest definition, the following paragraph shall be applied to the entire financial asset once all portions have been transferred. [Content moved to paragraph 860-10-40-4E]~~

860-10-40-4C Items (b) through (c) in paragraph 860-10-40-4 do not apply to a transfer of **financial assets** and a related **repurchase financing**. In transactions involving a contemporaneous transfer of a financial asset and a repurchase financing of that transferred financial asset with the same counterparty, a transferor and transferee shall separately account for the initial transfer of the financial asset and the related repurchase agreement. Paragraphs 860-10-55-17A through 55-17C provide implementation guidance related to repurchase financings.

860-10-40-4D To be eligible for sale accounting, an entire financial asset cannot be divided into components before a transfer unless all of the components meet the definition of a **participating interest**. The legal form of the asset and what the asset conveys to its holders shall be considered in determining what constitutes an entire financial asset (for implementation guidance, see paragraph 860-10-55-17E). An entity shall not account for a transfer of an entire financial asset or a participating interest in an entire financial asset partially as a sale and partially as a secured borrowing. **[Content moved from paragraph 860-10-40-4A]**

860-10-40-4E If a transfer of a portion of an entire financial asset meets the definition of a participating interest, the transferor shall apply the guidance in the following paragraph. If a transfer of a portion of a financial asset does not meet the definition of a participating interest, the transferor and transferee shall account for the transfer in accordance with the guidance in paragraph 860-30-25-2. However, if the transferor transfers an entire financial asset in portions that do not individually meet the participating interest definition, the following paragraph shall be applied to the entire financial asset once all portions have been transferred. **[Content moved from paragraph 860-10-40-4B]**

860-10-40-5 A transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the transferor surrenders control over those financial assets shall be accounted for as a sale if and only if all of the following conditions are met:

- a. Isolation of transferred financial assets. The transferred financial assets have been isolated from the transferor—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. Transferred financial assets are isolated in bankruptcy or other receivership only if the transferred financial assets would be beyond the reach of the powers of a bankruptcy trustee or other receiver for the transferor or any of its consolidated affiliates included in

the financial statements being presented. For multiple step transfers, a **bankruptcy-remote entity** is not considered a consolidated affiliate for purposes of performing the isolation analysis. Notwithstanding the isolation analysis, each entity involved in the transfer is subject to the applicable guidance on whether it shall be consolidated (see paragraphs 860-10-40-7 through 40-14 and the guidance beginning in paragraph 860-10-55-18). A **set-off right** is not an impediment to meeting the isolation condition.

- b. Transferee's rights to pledge or exchange. This condition is met if both of the following conditions are met:
 1. Each transferee (or, if the transferee is an entity whose sole purpose is to engage in **securitization** or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received.
 2. No condition does both of the following:
 - i. Constrains the transferee (or third-party holder of its beneficial interests) from taking advantage of its right to pledge or exchange
 - ii. Provides more than a trivial benefit to the transferor (see paragraphs 860-10-40-15 through 40-21).

If the transferor, its consolidated affiliates included in the financial statements being presented, and its agents have no continuing involvement with the transferred financial assets, the condition under paragraph 860-10-40-5(b) is met.
- c. Effective control. The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets (see paragraph 860-10-40-22A). A transferor's effective control over the transferred financial assets includes, but is not limited to, any of the following:
 1. An agreement that both entitles and obligates the transferor to repurchase or redeem ~~them~~ the transferred financial assets before their maturity (see paragraphs 860-10-40-23 through 40-2540-27)
 2. An agreement, other than through a **cleanup call** (see paragraphs 860-10-40-28 through 40-39), that provides the transferor with both of the following:
 - i. The **unilateral ability** to cause the holder to return specific financial assets
 - ii. A more-than-trivial benefit attributable to that ability.
 3. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them (see paragraph 860-10-55-42D).

860-10-40-5A A repurchase-to-maturity transaction shall be accounted for as a secured borrowing as if the transferor maintains effective control (see paragraphs 860-10-40-24 through 40-24A).

6. Amend paragraphs 860-10-40-24 through 40-25 and add paragraph 860-10-40-24A and its related heading, with a link to transition paragraph 860-10-65-5, as follows:

> > > Effective Control Through Both a Right and an Obligation

860-10-40-24 An agreement that both entitles and obligates the transferor to repurchase or redeem transferred financial assets from the transferee maintains the transferor's effective control over those assets as described in paragraph 860-10-40-5(c)(1), if all of the following conditions are met:

- a. The financial assets to be repurchased or redeemed are the same or substantially the same as those transferred. To be substantially the same, the financial asset that was transferred and the financial asset that is to be repurchased or redeemed need to have all of the following characteristics:
 1. The same primary obligor (except for debt guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which circumstance the guarantor and the terms of the guarantee must be the same)
 2. Identical form and type so as to provide the same risks and rights
 3. The same maturity (or in the circumstance of mortgage-backed pass-through and pay-through securities, similar remaining weighted-average maturities that result in approximately the same market yield)
 4. Identical contractual interest rates
 5. Similar assets as collateral
 6. The same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved. Participants in the mortgage-backed securities market have established parameters for what is considered acceptable delivery. These specific standards are defined by the Bond Market Association and can be found in Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities, which is published by the Bond Market Association.

See paragraph 860-10-55-35 for implementation guidance related to these conditions.
- b. Subparagraph superseded by Accounting Standards Update No. 2011-03.
- c. The agreement is to repurchase or redeem ~~them~~ the financial assets before maturity, at a fixed or determinable price.

- d. The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

> > Exception for a Repurchase-to-Maturity Transaction

860-10-40-24A Notwithstanding the characteristic in paragraph 860-10-40-24 that refers to a repurchase of the same (or substantially-the-same) financial asset, a **repurchase-to-maturity transaction** shall be accounted for as a secured borrowing as if the transferor maintains effective control.

860-10-40-25 With respect to the condition in (a) in ~~the preceding~~ paragraph 860-10-40-24 to maintain effective control under the condition in paragraph 860-10-40-5(c) as illustrated in paragraph 860-10-40-5(c)(1), the transferor must have both the contractual right and the contractual obligation to ~~reacquire securities~~ **repurchase or redeem financial assets** that are identical to those transferred or substantially the same as those concurrently transferred. Transfers that include only the right to reacquire, at the option of the transferor or upon certain conditions, or only the obligation to reacquire, at the option of the transferee or upon certain conditions, ~~generally do~~ may not maintain the transferor's control, because the option might not be exercised or the conditions might not occur. Similarly, expectations of reacquiring the same securities without any contractual commitments (for example, as in wash sales) provide no control over the transferred securities.

7. Supersede paragraphs 860-10-40-42 through 40-47 and their related heading, with a link to transition paragraph 860-10-65-5, as follows:

> Repurchase Financings

860-10-40-42 Paragraph superseded by Accounting Standards Update 2014-11. A transferor and transferee shall not separately account for a transfer of a financial asset and a related repurchase financing unless both of the following conditions are met:

- ~~a. The two transactions have a valid and distinct business or economic purpose for being entered into separately.~~
- ~~b. The repurchase financing does not result in the initial transferor regaining control over the financial asset.~~

860-10-40-43 Paragraph superseded by Accounting Standards Update 2014-11. An example of transactions lacking a valid business or economic purpose for being entered into separately is if the transactions are structured to circumvent an accounting standard or solely to achieve a specific accounting result. Unless the initial transfer and the repurchase financing meet all of the criteria in paragraph 860-10-40-44, the transactions shall be considered linked for purposes of applying this Topic.

860-10-40-44 Paragraph superseded by Accounting Standards Update 2014-11. A repurchase financing is entered into in contemplation of the initial transfer if

~~both transactions are considered together at the execution of the initial transfer. An initial transfer of a financial asset and repurchase financing that are entered into contemporaneously with, or in contemplation of, one another shall be considered linked unless all of the following criteria are met at the inception of the transaction:~~

- ~~a. The initial transfer and the repurchase financing are not contractually contingent on one another. Even if no contractual relationship exists, the pricing and performance of either the initial transfer or the repurchase financing shall not be dependent on the terms and execution of the other transaction.~~
- ~~b. The repurchase financing provides the initial transferor with recourse to the initial transferee upon default. That recourse shall expose the initial transferor to the credit risk of the initial transferee, or its affiliates, and not solely to the market risk of the transferred financial asset. The initial transferee's agreement to repurchase the previously transferred financial asset (or substantially the same asset) is for a fixed price and not fair value.~~
- ~~c. The financial asset subject to the initial transfer and repurchase financing is readily obtainable in the marketplace. In addition, the initial transfer of a financial asset and the repurchase financing are executed at market rates. This criterion shall not be circumvented by embedding off-market terms in a separate transaction contemplated with the initial transfer or the repurchase financing.~~
- ~~d. The financial asset and repurchase agreement are not coterminal (the maturity of the repurchase financing shall be before the maturity of the financial asset). For guidance on determining whether the repurchase agreement is before the maturity of the asset, see paragraph 860-10-55-51.~~

860-10-40-45 Paragraph superseded by Accounting Standards Update 2014-11. ~~If the transactions meet all of the conditions in paragraphs 860-10-40-43 through 40-44, the initial transfer shall be accounted for separately from the repurchase financing. In this circumstance, the initial transfer shall be evaluated to determine if it meets the requirements for sale accounting under paragraph 860-10-40-5 without taking into consideration the repurchase financing. The initial transferor and initial transferee shall then analyze the repurchase financing as a repurchase agreement under this Topic.~~

~~860-10-40-46 Paragraph superseded by Accounting Standards Update 2014-11. If the transactions do not meet all of the provisions in paragraphs 860-10-40-43 through 40-44, the initial transfer and repurchase financing shall be evaluated as a linked transaction. The linked transaction shall be evaluated to determine whether it meets the requirements for sale accounting under paragraph 860-10-40-5. If the linked transaction does not meet the requirements for sale accounting, the linked transaction shall be accounted for based on the economics of the combined transactions, which generally represent a forward contract. Subtopic 815-10 shall be used to evaluate whether the linked transaction shall be accounted for as a derivative instrument. Other guidance may need to be considered as a result of accounting for the transactions linked (for example, the effect on other aspects of a securitization transaction when the initial transferor retains the financial asset subject to the repurchase financing).~~

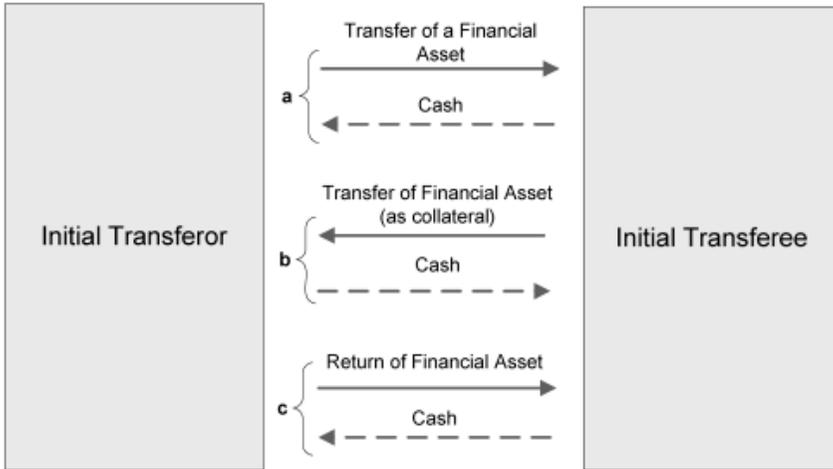
~~860-10-40-47 Paragraph superseded by Accounting Standards Update 2014-11. Paragraphs 860-10-55-17A through 55-17C provide implementation guidance related to repurchase financings.~~

8. Amend paragraphs 860-10-55-17A through 55-17C, with a link to transition paragraph 860-10-65-5, as follows:

Implementation Guidance and Illustrations

> > > Repurchase Financings

~~860-10-55-17A This implementation guidance (including the following diagram) addresses the scope application guidance beginning in paragraph 860-10-40-42 to an initial transfer and a subsequent repurchase financing. The purpose of this implementation guidance is to illustrate the characteristics of a transaction comprising an initial transfer and a repurchase financing the transaction and to prevent preclude an inappropriate analogy to other financing transactions that are outside the scope of the guidance beginning in paragraph 860-10-40-4C, which states that items (b) through (c) in paragraph 860-10-40-4 do not apply to a transfer of financial assets and a related repurchase financing860-10-40-42.~~



860-10-55-17B The diagram in the preceding paragraph depicts the following three transfers of a financial asset that typically occur in the transactions within the scope of the guidance beginning in paragraph ~~860-10-40-4C~~860-10-40-42:

- a. The initial transferor transfers a financial asset to the initial transferee in return for cash.
- b. The initial transferee enters into a repurchase financing arrangement with the initial transferor. The initial transferee transfers the previously transferred financial asset to the initial transferor as collateral for the financing. The initial transferee receives cash from the initial transferor. As part of the repurchase financing arrangement, the initial transferee is obligated to repurchase the financial asset (or substantially the same financial asset) at a fixed price within a prescribed time period.
- c. The initial transferee makes the required payment to the initial transferor under the terms of the repurchase financing. Upon receipt of payment, the initial transferor returns the transferred asset (or substantially the same asset) to the initial transferee.

860-10-55-17C Whether or not the parties agree to net settle the steps in items (a) and (b) of the preceding paragraph shall not affect whether the transactions are within the scope of the guidance for repurchase financings beginning in paragraph ~~860-10-40-4C~~860-10-40-42. ~~However, the ability to net settle the transactions is a factor to consider in determining whether the two transactions meet all of the provisions in paragraphs 860-10-40-42 through 40-44.~~

9. Amend paragraph 860-10-55-34, with a link to transition paragraph 860-10-65-5, as follows:

> > Effective Control

860-10-55-34 The following provides implementation guidance related to the effective control condition and related examples in paragraph 860-10-40-5(c), specifically:

- a. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity (see paragraph 860-10-40-5(c)(1)):
 1. Whether ~~securities~~ **financial assets** exchanged are substantially the same
 2. Subparagraph superseded by Accounting Standards Update No. 2011-03
- b. An agreement that provides the transferor with the **unilateral ability** to cause the holder to return specific financial assets, other than through a cleanup call (see paragraph 860-10-40-5(c)(2)):
 1. Rights to reacquire (call) transferred assets.
- c. An agreement that permits the transferee to require the transferor to repurchase the transferred financial asset at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase the transferred financial asset.

10. Supersede (and move) paragraphs 860-10-55-48 through 55-50 and their related heading and paragraphs 860-10-55-52 through 55-53, amend paragraph 860-10-55-51 and its related heading, and add paragraphs 860-10-55-51A through 55-51B, with a link to transition paragraph 860-10-65-5, as follows:

>>> **Securities Lending Transactions**

~~**860-10-55-48** Paragraph superseded by Accounting Standards Update 2014-11. Paragraphs 860-10-05-16 through 05-18 provide background on securities lending transactions. If the conditions in paragraph 860-10-40-5 are met, a securities lending transaction shall be accounted for as follows:~~

- ~~a. By the transferor as a sale of the loaned securities for proceeds consisting of the cash collateral and a forward repurchase commitment. If the collateral in a transaction that meets the conditions in paragraph 860-10-40-5 is a financial asset that the holder is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the loaned securities.~~
- ~~b. By the transferee as a purchase of the borrowed securities in exchange for the collateral and a forward resale commitment. **[Content amended and moved to paragraph 860-10-55-55A]**~~

~~**860-10-55-49** Paragraph superseded by Accounting Standards Update 2014-11. During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that circumstance,~~

~~creditors of the transferor have a claim only to the collateral and the forward repurchase commitment. [Content moved to paragraph 860-10-55-55A]~~

~~**860-10-55-50** Paragraph superseded by Accounting Standards Update 2014-11. To the extent that the collateral consists of letters of credit or other financial instruments that the holder is not permitted by contract or custom to sell or repledge, a securities lending transaction does not satisfy the sale conditions and is accounted for as a loan of securities by the transferor to the transferee. [Content amended and moved to paragraph 860-10-55-51(b)]~~

> > **Repurchase Agreements and Securities Lending Transactions**

860-10-55-51 Paragraphs 860-10-05-19 through 05-21 provide background on repurchase agreements. Paragraphs 860-10-05-16 through 05-18 provide background on securities lending transactions. Repurchase agreements and securities lending transactions are required to be evaluated under each of the following conditions for derecognition in accordance with paragraph 860-10-40-5:

- a. Isolation. Paragraph 860-10-40-5(a) requires an assessment of whether the transferred **financial assets** are isolated from the transferor. Paragraphs 860-10-40-5(a) and 860-10-40-8 require that the transferred financial assets be placed beyond the reach of all consolidated affiliates, except for certain bankruptcy-remote entities, included in the financial statements being presented.
- b. Transferee's rights to pledge or exchange. Paragraph 860-10-40-5(b) requires an assessment of the transferee's rights to pledge or exchange the transferred financial assets. If a transferor has transferred financial assets ~~securities~~ to an independent third-party custodian, or to a transferee, under conditions that preclude the transferee from selling or repledging the assets during the term of the repurchase agreement (~~as in most tri-party repurchase agreements~~), the transferor has not surrendered control over those assets. **[Content moved from paragraph 860-10-55-52]** ~~To~~ In a securities lending transaction, to the extent that the collateral consists of letters of credit or other financial instruments that the holder is not permitted by contract or custom to sell or repledge, a securities lending the transaction does not satisfy the sale conditions and is accounted for as a loan of securities by the transferor to the transferee. [Content amended as shown and moved from paragraph 860-10-55-50]
- c. Effective control. Paragraph 860-10-40-5(c) requires an assessment of whether the transferor maintains effective control over transferred financial assets. An agreement that both entitles and obligates the transferor to repurchase transferred financial assets from the transferee in accordance with paragraph 860-10-40-5(c)(1) that meets the criteria in paragraph 860-10-40-24 maintains the transferor's effective control over transferred financial assets. Therefore, transfers with agreements to repurchase transferred financial assets that either meet the effective

control criteria or qualify for the **repurchase-to-maturity transaction** exception need not be assessed under the remaining conditions for derecognition and should be accounted for as a secured borrowing. Paragraph 860-10-55-51A illustrates the application of the effective control condition in paragraph 860-10-40-5(c)(1).

Repurchase agreements and securities lending transactions that do not meet all the conditions in paragraph 860-10-40-5 shall~~shall~~ be treated as secured borrowings. Under many agreements to repurchase transferred financial assets before their maturity, the transferor maintains effective control over those financial assets. [Content amended and moved to paragraph 860-10-55-51A] ~~This Subtopic does not specifically define the term *before maturity*. The only meaningful distinction based on required repurchase at some proportion of the life of the assets transferred is between a repo to maturity, in which the typical settlement is a net cash payment, and a repurchase before maturity, in which the portion of the financial asset that remains outstanding is indeed reacquired in an exchange. A transferor's agreement to repurchase a transferred financial asset would not be considered a repurchase or redemption before maturity if, because of the timing of the redemption, the transferor would be unable to sell the financial asset again before its maturity (that is, the period until maturity is so short that the typical settlement is a net cash payment).~~

860-10-55-51A Under many certain agreements to repurchase transferred financial assets before their maturity, the transferor maintains effective control over these the transferred financial assets. [Content amended as shown and moved from paragraph 860-10-55-51] If effective control is maintained or the transaction qualifies for the **repurchase-to-maturity transaction** exception, the agreement is accounted for as a secured borrowing. If effective control is not maintained or the repurchase-to-maturity transaction exception is not met, the transaction would be assessed under the other derecognition conditions in paragraph 860-10-40-5 to determine if the transferred financial asset should be derecognized and accounted for as a sale.

860-10-55-51B The following illustrates the application of the derecognition guidance in paragraphs 860-10-40-24 through 40-24A:

- a. Repurchase agreements and securities lending transactions—assets that are identical. The following illustrates agreements for which the transferor maintains effective control over the transferred financial asset:
 1. A financial asset is transferred under a contemporaneous agreement with the same counterparty that requires the transferor to repurchase or redeem it before its maturity at a fixed price or at the sale price plus or minus a lender's return.
 2. A financial asset is transferred under a securities lending transaction that requires the transferee to return to the transferor the identical asset before its maturity at a fixed price.

- b. Repurchase agreements and securities lending transactions—assets that are substantially the same. The following illustrates agreements for which the transferor maintains effective control over the transferred financial asset:
1. A financial asset is transferred under a contemporaneous agreement with the same counterparty to repurchase or redeem an asset that is substantially the same as the initially transferred asset (in accordance with paragraph 860-10-40-24(a)) before its maturity at a fixed price or at the sale price plus or minus a lender's return.
 2. A financial asset is transferred under a securities lending transaction that requires the transferee to return to the transferor an asset that is substantially the same as the initially transferred financial asset (in accordance with paragraph 860-10-40-24(a)) before its maturity at a fixed price.
 3. Fixed-coupon and dollar-roll repurchase agreements, and other contracts under which the securities to be repurchased need not be the same as the securities sold, qualify as borrowings if they are substantially the same in accordance with paragraph 860-10-40-24(a) as the securities initially transferred. (see paragraphs 860-10-40-24(a)) securities as those concurrently initially transferred. Therefore, these transactions shall be accounted for as secured borrowings by both parties to the transfer provided all other criteria for effective control has have been met. **[Content amended as shown and moved from paragraph 860-10-55-53]**
- c. Repurchase-to-maturity transactions. A repurchase-to-maturity transaction is accounted for as a secured borrowing as if it maintains the transferor's effective control over the transferred financial asset. A transfer of a financial asset with a contemporaneous total return swap to maturity does not meet the definition of *repurchase-to-maturity transaction*.
- d. Cash-settled repurchase agreements. If a financial asset is transferred under a contemporaneous agreement with the same counterparty to repurchase or redeem it before its maturity at a fixed repurchase price or a price equal to the sale price plus or minus a lender's return and the agreement requires the transferee to settle the agreement in cash, the agreement does not maintain the transferor's effective control over the transferred financial assets. An exception is a repurchase-to-maturity transaction as discussed in (c).

860-10-55-52 Paragraph superseded by Accounting Standards Update 2014-11. If a transferor has transferred securities to an independent third-party custodian, or to a transferee, under conditions that preclude the transferee from selling or pledging the assets during the term of the repurchase agreement (as in most tri-party repurchase agreements), the transferor has not surrendered control over these assets. **[Content moved to paragraph 860-10-55-51]**

860-10-55-53 Paragraph superseded by Accounting Standards Update 2014-11. Fixed-coupon and dollar-roll repurchase agreements, and other contracts under which the securities to be repurchased need not be the same as the securities sold, qualify as borrowings if they are substantially the same (see paragraph 860-10-40-24(a)) securities as those concurrently transferred. Therefore, those transactions shall be accounted for as secured borrowings by both parties to the transfer provided all other criteria for effective control has been met. **[Content amended and moved to paragraph 860-10-55-51B(b)]**

11. Amend paragraphs 860-10-55-54 through 55-55, add paragraphs 860-10-55-55A and 860-10-55-56B, and supersede paragraph 860-10-55-56A, with a link to transition paragraph 860-10-65-5, as follows:

860-10-55-54 ~~Whether a transfer of a debt security is accounted for as a sale under this Topic depends on whether the conditions in paragraph 860-10-40-5 are met. In repurchase transactions agreements and securities lending transactions involving readily obtainable held-to-maturity debt securities, the conditions set forth in paragraph 860-10-40-24 shall~~ should be carefully evaluated to determine whether the transaction should be accounted for as a sale or secured borrowing. For example, if the security that is required to be returned has a different maturity or has a different contractual interest rate from the transferred security, the substantially-the-same criterion would not be met. In that circumstance, effective control would not be maintained under the condition in paragraph 860-10-40-5(c) and the transfer would be accounted for as a sale if the other conditions in paragraph 860-10-40-5 are met. ~~Both parties to a repurchase agreement shall use the same conditions in determining the accounting for a repurchase agreement.~~

860-10-55-55 If the conditions in paragraph 860-10-40-5 are met, the transferor shall should account for the repurchase agreement as a sale of financial assets and a forward repurchase commitment, and the transferee shall should account for the agreement as a purchase of financial assets and a forward resale commitment. ~~Other transfers that are accompanied by an agreement to repurchase the transferred financial assets that would be accounted for as sales if the conditions in paragraph 860-10-40-5 are met include transfers with agreements to repurchase at maturity.~~

860-10-55-55A Paragraphs 860-10-05-16 through 05-18 provide background on securities lending transactions. If the conditions in paragraph 860-10-40-5 are met, a securities lending transaction shall should be accounted for as follows:

- a. By the transferor as a sale of the loaned securities for proceeds consisting of the cash collateral and a forward repurchase commitment. If the collateral in a transaction that meets the conditions in paragraph 860-10-40-5 is a financial asset that the holder is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the loaned securities.

- b. By the transferee as a purchase of the borrowed securities in exchange for the collateral and a forward resale commitment. **[Content amended as shown and moved from paragraph 860-10-55-48]**

During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that circumstance, creditors of the transferor have a claim only to the collateral and the forward repurchase commitment. **[Content moved from paragraph 860-10-55-49]**

860-10-55-56 Repurchase agreements that involve an exchange of securities or letters of credit are accounted for in the same manner as securities lending transactions (see paragraphs 860-30-25-7 through 25-8).

860-10-55-56A Paragraph superseded by Accounting Standards Update 2014-11. For guidance on transactions involving an initial transfer and a repurchase financing, see the guidance beginning in paragraph 860-10-40-42.

860-10-55-56B In repurchase agreements and securities lending transactions in which the transferor does not derecognize the transferred financial asset, if the transferee obtains the right to sell or pledge the asset, the transferor reclassifies the asset in its statement of financial position separately from other assets not so encumbered in accordance with paragraph 860-30-45-1.

12. Add paragraph 860-10-65-5 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

860-10-65-5 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*:

- a. The pending content that links to this paragraph (other than paragraph 860-30-50-7) shall be effective for **public business entities** for the first interim or annual period beginning after December 15, 2014. For all other entities, the pending content that links to this paragraph shall be effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015.
- b. The pending content that links to this paragraph shall be applied by means of a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.
- c. Earlier application is not permitted for public business entities. All other entities may elect to apply the requirements for interim periods beginning after December 15, 2014.

- d. An entity shall disclose information in accordance with paragraphs 250-10-50-1 through 50-3 in the period that the entity adopts the pending content that links to this paragraph.
- e. The disclosures required by the pending content that links to this paragraph shall be presented as follows:
 - 1. For public business entities, the disclosure required by paragraph 860-20-50-4A shall be presented for interim and annual periods beginning after December 15, 2014. For all other entities, the disclosure required by paragraph 860-20-50-4A shall be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after December 15, 2015.
 - 2. For public business entities, the disclosure required by paragraph 860-30-50-7 shall be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. For all other entities, the disclosure required by paragraph 860-30-50-7 shall be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after December 15, 2015.
 - 3. All disclosures in the pending content that links to this paragraph are not required for comparative periods presented before the effective date.

Amendments to Subtopic 860-20

13. Add paragraphs 860-20-50-4A through 50-4D, with a link to transition paragraph 860-10-65-5, as follows:

Transfers and Servicing—Sales of Financial Assets

Disclosure

860-20-50-4A The disclosure requirement in paragraph 860-20-50-4D applies to transactions accounted for as a sale that comprise both of the following:

- a. A transfer of financial assets to a transferee
- b. An agreement entered into in contemplation of the initial transfer with the transferee that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For purposes of this paragraph, an agreement entered into in contemplation of the initial transfer refers to transactions that depend on the execution of one another and that are entered into for the same business purpose.

860-20-50-4B The transactions described in paragraph 860-20-50-4A include both of the following types:

- a. Transfers of financial assets with an agreement to repurchase the transferred financial asset (or a substantially-the-same financial asset) before maturity at a fixed or determinable price that will be settled in a form other than the return of the transferred financial asset (for example, the transaction is cash-settled)
- b. Transfers of financial assets with an agreement that requires that the transferor retain substantially all of the exposure to the economic return on the transferred financial asset (for example, a sale with a total return swap).

860-20-50-4C The following items are not subject to the requirements in paragraph 860-20-50-4D:

- a. Transfers of financial assets with an agreement to purchase another financial asset that is not substantially the same as the initial transferred financial asset in accordance with paragraph 860-10-40-24(a), for example, a dollar roll transaction accounted for as a sale because the financial asset to be purchased is not substantially the same as the initially transferred financial asset in accordance with paragraph 860-10-40-24(a)
- b. Transactions described in paragraph 860-20-50-2 that are subject to the disclosures in paragraphs 860-20-50-3 through 50-4.

860-20-50-4D To provide an understanding of the nature of the transactions, the transferor's continuing exposure to the transferred financial assets, and the presentation of the components of the transaction in the financial statements, an entity shall disclose the following for outstanding transactions at the reporting date that meet the scope guidance in paragraphs 860-20-50-4A through 50-4B by type of transaction (for example, **repurchase agreement**, securities lending transaction, and sale and total return swap) (except for those transactions that are excluded from the scope, as described in paragraph 860-20-50-4C):

- a. The carrying amount of assets derecognized as of the date of derecognition:
 - 1. If the amounts that have been derecognized have changed significantly from the amounts that have been derecognized in prior periods or are not representative of the activity throughout the period, a discussion of the reasons for the change shall be disclosed.
- b. The amount of gross cash proceeds received by the transferor for the assets derecognized as of the date of derecognition.
- c. Information about the transferor's ongoing exposure to the economic return on the transferred financial assets:
 - 1. As of the reporting date, the fair value of assets derecognized by the transferor.
 - 2. Amounts reported in the statement of financial position arising from the transaction (for example, the carrying value or fair value of

forward repurchase agreements or swap contracts). To the extent that those amounts are captured in the derivative disclosures presented in accordance with paragraph 815-10-50-4B, an entity shall provide a cross-reference to the appropriate line item in that disclosure.

3. A description of the arrangements that result in the transferor retaining substantially all of the exposure to the economic return on the transferred financial assets and the risks related to those arrangements.

14. Add paragraph 860-20-55-108 and its related heading, with a link to transition paragraph 860-10-65-5, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 11: Disclosure of Certain Transfers of Financial Assets Accounted for as Sales with Agreements That Result in the Transferor Retaining Substantially All of the Exposure to the Economic Return on the Transferred Financial Asset

860-20-55-108 This Example illustrates one approach for satisfying the quantitative disclosure requirements in paragraph 860-20-50-4D.

[For ease of readability, the table is not underlined as new text.]

Transfers of Financial Assets Accounted for as Sales
(Dollars in millions)

Type of Transaction	At the Date of Derecognition for Transactions Outstanding		At the Reporting Date		
	Carrying Amount	Gross Cash Proceeds Received for Assets	Fair Value of Transferred Assets	Gross Derivative Assets Recorded ^{(a) (b)}	Gross Derivative Liabilities Recorded ^{(a) (b)}
Repurchase agreements	\$ XX	\$ XX	\$ XX	\$ XX	\$ XX
Sale and a total return swap	XX	XX	XX	XX	XX
Securities lending	XX	XX	XX	XX	XX
Total	\$ XX	\$ XX	\$ XX	\$ XX	\$ XX

(a) Balances are presented on a gross basis, before the application of counterparty and cash collateral offsetting.

(b) \$XX of gross derivative assets and \$XX of gross derivative liabilities are included as interest rate contracts in footnote X on derivative disclosures. \$XX of gross derivative assets and \$XX of gross derivative liabilities are included as credit risk contracts in footnote X on derivative disclosures.

Amendments to Subtopic 860-30

15. Amend paragraph 860-30-25-6, with a link to transition paragraph 860-10-65-5, as follows:

Transfers and Servicing—Secured Borrowing and Collateral

Recognition

> Cash or Securities Received as Proceeds

~~860-30-25-6 Paragraphs 860-10-55-48 through 55-50 discuss Paragraph 860-10-55-55A discusses securities lending transactions in which the criteria in paragraph 860-10-40-5 for a sale are met. The following guidance relates to securities lending or similar transactions in which a transferor (lender) transfers securities and receives either cash or securities as collateral and the transfer does not meet the sale criteria in that paragraph.~~

16. Supersede paragraph 860-30-50-6 and its related heading and add paragraph 860-30-50-8, with no link to a transition paragraph, and add paragraph 860-30-50-7 and its related heading, with a link to transition paragraph 860-10-65-5, as follows:

Disclosure

~~> Disclosures for Repurchase Agreements and Securities Lending Transactions~~

~~860-30-50-6 Paragraph superseded by Accounting Standards Update 2014-11.A reporting entity also shall disclose the information required by paragraphs 240-20-50-1 through 50-6 for both of the following that are either offset in accordance with Section 240-20-45 or subject to an enforceable master netting arrangement or similar agreement:~~

- ~~a. Recognized repurchase agreements and reverse sale and repurchase agreements~~
- ~~b. Recognized securities borrowing and securities lending transactions.~~
~~[Content amended and moved to paragraph 860-30-50-8]~~

> Disclosures for Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions

860-30-50-7 To provide an understanding of the nature and risks of short-term collateralized financing obtained through **repurchase agreements**, **securities lending transactions**, and **repurchase-to-maturity transactions**, that are accounted for as secured borrowings at the reporting date, an entity shall disclose the following information for each interim and annual period about the collateral pledged and the associated risks to which the transferor continues to be exposed after the transfer:

- a. A disaggregation of the gross obligation by the class of collateral pledged. An entity shall determine the appropriate level of

disaggregation and classes to be presented on the basis of the nature, characteristics, and risks of the collateral pledged.

1. Total borrowings under those agreements shall be reconciled to the amount of the gross liability for repurchase agreements and securities lending transactions disclosed in accordance with paragraph 210-20-50-3(a) before any adjustments for offsetting. Any difference between the amount of the gross obligation disclosed under this paragraph and the amount disclosed in accordance with paragraph 210-20-50-3(a) shall be presented as reconciling item(s).
- b. The remaining contractual maturity of the repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. An entity shall use judgment to determine an appropriate range of maturity intervals that would convey an understanding of the overall maturity profile of the entity's financing agreements.
- c. A discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

860-30-50-8 A reporting entity also shall disclose the information required by paragraphs 210-20-50-1 through 50-6 for both of the following that are either offset in accordance with Section 210-20-45 or subject to an enforceable master netting arrangement or similar agreement:

- ~~a. Recognized repurchase agreements and reverse sale and repurchase agreements~~ **Recognized repurchase agreements accounted for as a collateralized borrowing and reverse repurchase agreements accounted for as a collateralized borrowing**
- ~~b. Recognized securities borrowing and securities lending transactions.~~ **[Content amended as shown and moved from paragraph 860-30-50-6]**

17. Add paragraph 860-30-55-4 and its related heading, with a link to transition paragraph 860-10-65-5, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Disclosures for Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

860-30-55-4 This Example illustrates one approach for satisfying the quantitative disclosure requirements in paragraph 860-30-50-7.

[For ease of readability, the table is not underlined as new text.]

**Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions
Accounted for as Secured Borrowings**
(Dollars in millions)

20XX					
Remaining Contractual Maturity of the Agreements					
	Overnight and Continuous	Up to 30 days	30–90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
State and municipal securities	XXX	XXX	XXX	XXX	XXX
Asset-backed securities	XXX	XXX	XXX	XXX	XXX
Corporate securities	XXX	XXX	XXX	XXX	XXX
Equity securities	XXX	XXX	XXX	XXX	XXX
Non-U.S. sovereign debt	XXX	XXX	XXX	XXX	XXX
Loans	XXX	XXX	XXX	XXX	XXX
Other	XXX	XXX	XXX	XXX	XXX
Total	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Securities lending transactions					
U.S. Treasury and agency securities	XXX	XXX	XXX	XXX	XXX
State and municipal securities	XXX	XXX	XXX	XXX	XXX
Corporate securities	XXX	XXX	XXX	XXX	XXX
Equity securities	XXX	XXX	XXX	XXX	XXX
Non-U.S. sovereign debt	XXX	XXX	XXX	XXX	XXX
Loans	XXX	XXX	XXX	XXX	XXX
Other	XXX	XXX	XXX	XXX	XXX
Total	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Total borrowings	<u>\$ XXX</u>	<u>\$ XXX</u>	<u>\$ XXX</u>	<u>\$ XXX</u>	<u>\$ XXX</u>
Gross amount of recognized liabilities for repurchase agreements and securities lending in footnote X					<u>\$ XXX</u>
Amounts related to agreements not included in offsetting disclosure in footnote X					<u>\$ XXX</u>

18. Amend paragraph 860-30-60-1, with no link to a transition paragraph, as follows:

> Balance Sheet

860-30-60-1 For the conditions that must be met for an entity to be permitted to offset amounts recognized as payables under ~~repurchase agreements~~ **repurchase agreements accounted for as collateralized borrowings** and amounts recognized as receivables under ~~reverse repurchase agreements~~ **reverse repurchase agreements accounted for as collateralized borrowings**, see paragraphs 210-20-45-11 through 45-12.

Amendments to Subtopic 320-10

19. Amend paragraph 320-10-25-18(e)(2), with a link to transition paragraph 860-10-65-5, as follows:

Investments—Debt and Equity Securities—Overall

Recognition

> > > Other Circumstances Consistent with Held-to-Maturity Classification

320-10-25-18 Specific scenarios in which a debt security may be classified as held to maturity (or where sale or transfer of a held-to-maturity security will not call into question an investor's stated intent to hold other debt securities to maturity in the future) are as follows:

- e. If a transfer of a held-to-maturity debt security is accounted for as a sale under Subtopic 860-20 and it is transferred for a reason other than those specified in paragraphs 320-10-25-6, 320-10-25-9, and 320-10-25-14, then the transfer would taint the held-to-maturity portfolio. However, if the transfer is accounted for as a secured borrowing, then the transfer would not taint the held-to-maturity portfolio. Transactions involving held-to-maturity securities that are not accounted for as sales under Subtopic 860-20 would not contradict an entity's stated intent to hold a security to maturity and, therefore, do not call into question the entity's intent to hold other debt securities to maturity. Examples of such transactions are as follows:
 1. Held-to-maturity securities pledged as collateral, provided that the transaction is not accounted for as a sale under Subtopic 860-20 and the entity intends and expects to be able to satisfy the obligation and recover access to its collateral
 2. Held-to-maturity securities subject to a repurchase agreement or a securities lending agreement, provided that the transaction is accounted for as a secured borrowing under Subtopic 860-20 and

the entity intends and expects to be able to repay the borrowing and recover access to its collateral

3. Beneficial interests classified as held-to-maturity that are desecuritized in a transaction that is not accounted for as a sale if the financial assets received in or that continue to be held after the desecuritization are held to maturity. Unless the debt instrument received or retained as a result of the transaction is held to maturity, the transaction would call into question the entity's intent to hold other debt securities to maturity. Desecuritizations are not specifically included within the scope of this paragraph. Nevertheless, that guidance is also appropriate for desecuritizations that are not accounted for as sales.

20. Amend paragraph 320-10-00-1, by adding the following item to the table, as follows:

320-10-00-1 The following table identifies the changes made to this Subtopic:

Paragraph Number	Action	Accounting Standards Update	Date
320-10-25-18	Amended	2014-11	06/12/2014

21. Amend paragraph 860-10-00-1, by adding the following items to the table, as follows:

860-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Not-for-Profit Entity	Added	2014-11	06/12/2014
Public Business Entity	Added	2014-11	06/12/2014
Repurchase Agreement	Amended	2014-11	06/12/2014
Repurchase-to-Maturity Transaction	Added	2014-11	06/12/2014
860-10-05-21A	Superseded	2014-11	06/12/2014
860-10-05-21B	Superseded	2014-11	06/12/2014
860-10-40-1	Amended	2014-11	06/12/2014
860-10-40-4A	Superseded	2014-11	06/12/2014
860-10-40-4B	Superseded	2014-11	06/12/2014

Paragraph Number	Action	Accounting Standards Update	Date
860-10-40-4C through 40-4E	Added	2014-11	06/12/2014
860-10-40-5	Amended	2014-11	06/12/2014
860-10-40-5A	Added	2014-11	06/12/2014
860-10-40-24	Amended	2014-11	06/12/2014
860-10-40-24A	Added	2014-11	06/12/2014
860-10-40-25	Amended	2014-11	06/12/2014
860-10-40-42 through 40-47	Superseded	2014-11	06/12/2014
860-10-55-17A through 17C	Amended	2014-11	06/12/2014
860-10-55-34	Amended	2014-11	06/12/2014
860-10-55-48 through 55-50	Superseded	2014-11	06/12/2014
860-10-55-51	Amended	2014-11	06/12/2014
860-10-55-51A	Added	2014-11	06/12/2014
860-10-55-51B	Added	2014-11	06/12/2014
860-10-55-52	Superseded	2014-11	06/12/2014
860-10-55-53	Superseded	2014-11	06/12/2014
860-10-55-54	Amended	2014-11	06/12/2014
860-10-55-55	Amended	2014-11	06/12/2014
860-10-55-55A	Added	2014-11	06/12/2014
860-10-55-56A	Superseded	2014-11	06/12/2014
860-10-55-56B	Added	2014-11	06/12/2014
860-10-65-5	Added	2014-11	06/12/2014

22. Amend paragraph 860-20-00-1, by adding the following items to the table, as follows:

860-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Repurchase Agreement	Added	2014-11	06/12/2014
860-20-50-4A through 50-4D	Added	2014-11	06/12/2014
860-20-55-108	Added	2014-11	06/12/2014

23. Amend paragraph 860-30-00-1, by adding the following items to the table, as follows:

860-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Repurchase Agreement	Added	2014-11	06/12/2014
Repurchase Agreement Accounted for as a Collateralized Borrowing	Added	2014-11	06/12/2014
Repurchase-to-Maturity Transaction	Added	2014-11	06/12/2014
Reverse Repurchase Agreement Accounted for as a Collateralized Borrowing	Added	2014-11	06/12/2014
860-30-25-6	Amended	2014-11	06/12/2014
860-30-50-6	Superseded	2014-11	06/12/2014
860-30-50-7	Added	2014-11	06/12/2014
860-30-50-8	Added	2014-11	06/12/2014
860-30-55-4	Added	2014-11	06/12/2014
860-30-60-1	Amended	2014-11	06/12/2014

24. Amend paragraph 940-320-00-1, by adding the following item to the table, as follows:

940-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Repurchase Agreement	Amended	2014-11	06/12/2014

25. Amend paragraph 940-405-00-1, by adding the following item to the table, as follows:

940-405-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Repurchase Agreement	Amended	2014-11	06/12/2014

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Linsmeier dissented.

Mr. Linsmeier dissents from the issuance of this Accounting Standards Update for two primary reasons. First, he believes that secured borrowing accounting for repurchase agreements based on a transferor retaining effective control over transferred financial assets does not faithfully represent the assets of the reporting entity during the time period that the asset is being held by the transferee. An asset that is transferred in a typical repurchase agreement is legally the asset of the transferee during the term of the agreement, and frequently a transferee can pledge that asset as collateral or sell that asset to any other counterparty. Therefore, continuing to recognize that asset in the transferor's balance sheet during the term of the repurchase agreement does not faithfully represent the assets held by the transferor during that time period. Issues with the faithful representation of the transferor's assets are compounded further under secured borrowing accounting by double counting the assets arising from the transaction in the transferor's balance sheet by continuing to recognize the asset transferred as well as the cash received under the repurchase agreement. Similarly, secured borrowing accounting for repurchase agreements does not faithfully represent the transferee's position because the transferee does not recognize the transferred financial asset even though it typically has the right to pledge or sell that asset during the term of the agreement.

Because Mr. Linsmeier does not support secured borrowing accounting for any repurchase agreement transaction, he does not support extending that accounting treatment to repurchase-to-maturity transactions, as required by the amendments in this Update. He believes that extending secured borrowing accounting to repurchase-to-maturity transactions is particularly problematic because there is no asset to reacquire at maturity.

Second, Mr. Linsmeier believes that accounting for repurchase agreements as secured borrowings does not consistently reflect on a timely basis changes in the underlying interest rate risk and credit risk in the financial statements. Understanding the interest rate risk and credit risk inherent in those transactions is important because when those risks cause the transferred asset to decline in value, the transferor's ability also diminishes (perhaps significantly) to continue

pledging those assets in future repurchase agreements to meet short-term liquidity needs. This potential inability can threaten the viability of the transferor, especially in times of economic stress when liquidity issues are most significant.

As stated previously, under the current accounting model, for most repurchase agreements the transferred financial asset remains on the transferor's balance sheet. If the asset is not measured at fair value, the credit risk of the transferred financial asset is recognized in the financial statements only through the periodic recognition of impairment and then only when the loss is deemed to be other than temporary (for a security) or probable (for a loan). Similarly, changes in the interest rate risk of assets transferred in repurchase agreements that are not measured at fair value are not transparent in the financial statements. Additionally, under the current accounting model, any credit risk changes recognized through impairment of assets not measured at fair value and any interest rate risk and credit risk changes recognized through measurement of the assets at fair value are recognized in the financial statements in the aggregate. This presentation provides little or no transparency about how changes in interest rate risk and credit risk affect the carrying values of assets transferred subject to repurchase agreements, securities lending arrangements, and repurchase-to-maturity transactions.

In the context of the secured borrowing accounting model, Mr. Linsmeier supports the requirement in this Update that transferors disclose a disaggregation of the gross repurchase obligation by class of collateral pledged for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions to help users of financial statements better understand the quality of the collateral pledged under those agreements. While he believes that those disclosures provide limited transparency about the risks inherent in repurchase agreements in the context of the current accounting model, he believes that a fundamental change to the accounting model for those transactions would represent a greater improvement in financial reporting.

Mr. Linsmeier would require the transferor to account for a transfer of a financial asset transferred in a repurchase agreement as a sale, if the conditions in paragraph 860-10-40-5(a) and (b) are met, and he would require the transferor to recognize a derivative for the forward repurchase agreement. The derivative would be remeasured at fair value through net income each period, thereby making transparent on a timely basis changes in the interest rate risk and credit risk of the transferred asset. Under a sale accounting model, Mr. Linsmeier believes that to limit an entity's ability to time the recognition of gains in net income, only financial assets classified and measured at fair value through net income should be permitted to be transferred in repurchase agreements.

Mr. Linsmeier believes that his alternative model (that is, sale accounting) would be the better method of accounting for all assets transferred in a repurchase agreement (not just for repurchase-to-maturity transactions) because it would accomplish the following:

1. Faithfully represent the assets held by a transferor and a transferee throughout the term of the repurchase agreement
2. Recognize and measure changes in the interest rate risk and credit risk of the transferred asset in the transferor's financial statements on a timely basis through the remeasurement of the derivative at fair value through net income
3. Eliminate the potential ability in a repurchase agreement to recognize gains on sale in net income, under Mr. Linsmeier's alternative model, by requiring that the transferred financial asset be classified and measured at fair value through net income.

Given that changes in the value of derivative contracts are reflected in the financial statements in an aggregate manner, Mr. Linsmeier believes that under his alternative model derivative contracts that relate to repurchase agreements should be presented separately within derivative disclosures to provide users with insights into the changing quality of assets transferred in those agreements. Additionally, he acknowledges that incremental disclosures also may be needed to complement a sale accounting model to provide users of the financial statements with greater insight into situations in which the transferor may have difficulty transferring financial assets in repurchase agreements to access liquidity through future transactions because of a significant decline in the quality of the specific types of assets being transferred. Those disclosures would be comparable to disclosures required in this Update for repurchase agreements, securities lending arrangements, and repurchase-to-maturity transactions accounted for as secured borrowings.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board concluded that the objectives of the guidance in this Update are to respond to stakeholders' concerns about the differential accounting treatment for certain repurchase agreements and similar transactions and to increase transparency about the types of collateral pledged in those agreements and the related risks. The Board decided to address those issues through a combination of limited amendments to the derecognition guidance in Topic 860, related to those transactions and new disclosure requirements.

BC3. The Board concluded that repurchase-to-maturity transactions should be accounted for as secured borrowings to align with the accounting treatment for other typical repurchase agreements. The Board also decided to amend the accounting guidance for linked repurchase financings to reflect those transactions as financings consistent with other typical repurchase agreements. The Board decided to require two new disclosures to address stakeholders' concerns and to ensure that investors obtain useful information about those agreements and similar transactions. Specifically, the Board decided to require a disclosure about transactions for which the application of derecognition guidance results in sale accounting but for which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets. Additionally, the Board decided to require disclosures about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings to provide users of financial statements with information about the types of collateral pledged in those agreements as well as additional information about the related liability. The Board concluded that these changes will improve financial reporting because they facilitate comparable accounting results for similar transactions as well as increase transparency about an important source of financing for some entities.

Background Information

BC4. Topic 860 prescribes when an entity may recognize a sale upon the transfer of financial assets. Specifically, transfers of financial assets currently are accounted for as a sale of financial assets if all of the following conditions are met (see paragraph 860-10-40-5):

- a. The transferred assets have been isolated from the transferor, even in bankruptcy.
- b. The transferee has the right to pledge or exchange the transferred assets.
- c. The transferor does not maintain effective control over the transferred financial assets, for example, through an agreement that entitles and obligates the transferor to repurchase or redeem them before their maturity.

If any of the conditions listed above are not met, the transaction is accounted for as a secured borrowing with a pledge of collateral.

BC5. If the conditions in items (a) and (b) above are met, the determination of whether repurchase agreements and securities lending transactions qualify for sale accounting is based on item (c) above. Topic 860 provides guidance to evaluate item (c). Specifically, Topic 860 explains that an agreement that entitles and obligates the transferor to repurchase or redeem the transferred financial assets from the transferee maintains effective control over those assets, and the transfer is therefore accounted for as a secured borrowing if, and only if, all of the following conditions are met:

- a. The assets to be repurchased or redeemed are the same or substantially the same as those transferred.
- b. The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price.
- c. The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

BC6. The guidance in Topic 860 is based on the notion that effective control is maintained for repurchase agreements if they represent a temporary transfer of only some elements of control over the transferred financial assets. If the transfer of control is temporary and the assets to be repurchased are the same or substantially the same as the asset transferred, then effective control is considered to be maintained. Effective control is considered to be maintained because an agreement that involves both a contractual right and obligation to repurchase a financial asset before its maturity effectively ensures the return of the asset, thereby retaining the transferor's control over the asset during the term of the agreement. Accordingly, the guidance results in the majority of repurchase agreements being accounted for as secured borrowing transactions with only certain types of transactions being accounted for as sale transactions. Examples

of those currently being accounted for as sale transactions include repurchase agreements that involve the return of a security that is not substantially the same as the security originally transferred and repurchase agreements that settle at the maturity of the transferred financial assets (commonly referred to as repurchase-to-maturity transactions).

BC7. The guidance in Topic 860 distinguishes a repurchase-to-maturity agreement, in which the typical settlement is a net cash payment, from a repurchase before maturity, in which the portion of the financial asset that remains outstanding is indeed reacquired in an exchange. Under the guidance, control of the transferred financial asset under a repurchase-to-maturity transaction is considered to have been effectively surrendered because the transferor never reacquires the transferred financial asset.

BC8. If the conditions for sale accounting are met, a transfer with an agreement that both entitles and obligates the transferor to repurchase a transferred financial asset is accounted for by the transferor as a sale of the financial asset and a forward purchase commitment during the term of the agreement. Similarly, the transferee recognizes a purchase of the securities received for cash and a forward resale commitment. The forward purchase and sale commitment should be evaluated under Topic 815 on derivatives and hedging to determine if it is required to be accounted for as a derivative.

BC9. If the criteria for sale accounting are not met, the transfer of financial assets is accounted for as a secured borrowing with a pledge of collateral. The transferor would recognize cash as proceeds of the transaction, together with a liability for the obligation to return it to the transferee. The transferee would derecognize the cash and record a receivable from the transferor. The transferor would not derecognize the transferred financial assets, but if the transferee has the right (by contract or custom) to sell or repledge them, the transferor would present those assets in its statement of financial position separately (for example, as security pledged to creditors as collateral) from other assets not so encumbered. The transferee would not recognize the transferred financial assets pledged to it as collateral unless it sells the assets, in which case the transferee would recognize the proceeds from the sale as an asset and its obligation to return the collateral to the transferor as a liability.

BC10. In 2011, in response to various stakeholders' concerns in the wake of the global financial crisis, the Board reconsidered one condition for maintaining a transferor's effective control over transferred financial assets subject to repurchase agreements. Specifically, the Board focused on a criterion for effective control that required the transferor to repurchase or redeem the financial assets on substantially the agreed-upon terms, even in the event of default by the transferee. After reconsidering that guidance, the Board determined that the failure to maintain collateral should not result in a transferor concluding that it surrendered effective control over transferred financial assets (and, thus, that sale accounting for the transaction is required if all other conditions for

derecognition were met). The FASB issued Accounting Standards Update No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which eliminated that criterion for assessing effective control and was effective for the first interim or annual period beginning on or after December 15, 2011.

BC11. During the course of that project, stakeholders raised issues about repurchase agreements that were considered beyond the project's scope, which was intentionally narrow to resolve a specific practice issue in an expeditious manner. Some stakeholders noted the need to improve existing disclosure requirements for repurchase agreements and similar transactions, linking those needs to the credit crisis and the need to better understand the nature of those transactions, the use of funding obtained through those transactions, and the associated credit and liquidity risks. Other stakeholders cited practice issues on the specific criteria for determining whether the financial assets to be repurchased before maturity are considered "substantially the same" as the financial assets sold. Additionally, in late 2011 and early 2012, the FASB became aware of stakeholders' concerns about repurchase-to-maturity transactions and questions about whether amendments to the current guidance for those agreements were warranted.

BC12. In accordance with the FASB's process of reassessing existing accounting standards when stakeholders raise concerns or practice issues arise, the Board undertook research to determine whether incremental issues on repurchase agreements existed. Through outreach, users of financial statements indicated that they broadly view repurchase agreements that involve the same or similar financial assets as financing transactions. While the current guidance distinguishes between repurchases before maturity and repurchases at maturity, users indicated that they make no such distinction and cited the transferor's retention of both the credit risk of the transferred financial assets and other important benefits of those assets. User outreach also confirmed that disclosures for repurchase agreements should be improved, especially the effect of those transactions on the transferor's liquidity risk profile.

BC13. Additionally, the Board noted that the marketplace for repurchase agreements and securities lending transactions had evolved substantially since the FASB first issued guidance in this area in FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For example, while repurchase agreements historically had involved mostly U.S. Treasury and U.S. government agency securities, the range of financial instruments pledged as collateral has broadened to include other types of asset-backed securities, structured debt securities, and sovereign debt securities, which may be less liquid and affect how those transactions operate and how investors consider the risks associated with them. As a result, the Board decided that there was a need to revisit the accounting guidance for repurchase agreements and related disclosures.

Basis for Conclusions

BC14. In January 2013, the Board issued proposed Accounting Standards Update, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*. The primary objectives of the proposed Update were to (a) clearly identify repurchase agreements and similar transactions that involve a transfer of a financial asset and agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial asset that should be accounted for as secured borrowings and (b) improve the accounting and disclosures for these transactions and similar types of arrangements. The Board received 23 comment letters on the proposed Update. Most respondents agreed with the Board's proposal to change the accounting for repurchase-to-maturity transactions but had concerns about the nature of the amendments to the effective control guidance for derecognition of financial assets. Others disagreed with some aspects of the proposal. The Board considered those comments during its redeliberations leading to this Update.

Repurchase-to-Maturity Transactions

BC15. Under the amendments in the proposed Update, the effective control guidance would have required secured borrowing accounting for an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets that meet the criteria in paragraph 860-10-40-24, regardless of whether the repurchase or redemption occurs before or at the same time as the maturity of the transferred financial assets that are subject to the agreement.

BC16. The Board decided that agreements that do not involve the return of the initially transferred financial asset because the settlement of the agreement is at the maturity of the transferred financial asset should be subject to secured borrowing accounting even though the effective control concept was based on a future repurchase of a financial asset. The Board determined that, in that limited case, the exchange of cash is equivalent to the return of the initially transferred financial asset because cash is the only possible form of settlement when the transferred financial asset has matured.

BC17. In reaching that decision, some Board members were influenced by the fact that the risk position of the transferor in a typical repurchase agreement is more consistent with the transaction being accounted for as a secured borrowing. In typical repurchase agreements, including repurchase-to-maturity transactions, the transferor is exposed to the issuer's default risk of the transferred financial assets throughout the term of the agreement. The transferor also is exposed to market risks that arise from the obligation to repurchase the financial asset at a fixed price and the requirement to provide margin in the event that the fair value

of the transferred financial asset declines during the term of the agreement. Given that the transferor retains the credit risk and market value exposure of the transferred financial assets throughout the term of the transaction, those Board members noted that it is more transparent to continue to reflect the financial assets on the transferor's balance sheet. Additionally, the Board understood that for repurchase-to-maturity transactions currently accounted for as sales with forward repurchase commitments, the transferor typically would receive the coupon payments on the transferred financial assets and incur the financing expense on the borrowing. However, both the assets generating the return and the liabilities generating the related financing expense remain off balance sheet. The Board was concerned that the current accounting does not clearly convey sufficient information about an entity's risks if it executes a significant volume of such transactions accounted for as sales with forward repurchase agreements. This is because only the changes in market value of the derivative would be reflected in the financial statements, rather than separately presenting the entity's full exposure to the asset and its borrowing obligations. The Board was concerned that this potentially could obscure the entity's need for liquidity to fulfill the obligations arising from those transactions.

BC18. The Board acknowledged that the approach in the proposed Update would not be aligned with the existing concept of effective control, which distinguishes between transactions that involve a return of the initially transferred financial asset (or the substantially-the-same financial asset) and those that do not. In a repurchase-to-maturity transaction, the transferor never reacquires the transferred financial asset because the financial asset has matured.

BC19. Most respondents to the proposed Update agreed with the outcome of secured borrowing accounting for repurchase-to-maturity transactions. However, most respondents did not support the approach in the proposed Update that (a) would have resulted in maintaining the transferor's effective control over the transferred financial asset that would have incorporated an exception for a cash-settled repurchase-to-maturity transaction but (b) would not have extended that exception to other cash-settled repurchase agreements and other similar transactions. Some respondents cited the divergence from the effective control model, while others noted an inherent inconsistency in amending guidance that clearly requires a reacquisition of the transferred financial asset. Some respondents noted that although the Board's decision was based on the concept of the transferor retaining risk, the proposed amendments did not clearly articulate the principle that could be uniformly applied to all similar transactions. Some respondents noted that the proposed amendments would change the focus of the derecognition analysis from a perspective based primarily on control to one based on risks and rewards for a subset of transactions, which would result in a potentially inconsistent result for similar transactions. Consequently, some respondents asked that the Board clarify the scope of the proposed amendments. Specifically, some respondents requested that the Board explicitly state whether a transfer of a financial asset and a cash-settled total return swap

to maturity on the same reference asset, executed with the same counterparty in contemplation of one another, would be within scope of the proposed amendments.

BC20. The Board considered the feedback received from respondents and acknowledged the difficulties associated with incorporating a risk-and-rewards-based outcome into the existing control model for derecognition. The Board decided that the objective in redeliberations was to address concerns about transfers of financial assets with contemporaneous agreements that convey significant risks to the transferor regardless of the form of the transaction. The Board considered several alternative paths to achieve that objective, such as through a broader scope of accounting changes, through disclosures only, or through a combination of the two. The Board considered whether to make no changes in accounting, such that the current model would still have resulted in derecognition of financial assets transferred in a repurchase-to-maturity agreement (assuming the other conditions for derecognition are satisfied) rather than secured borrowing accounting even if substantial risks and rewards are retained by the transferor. The Board acknowledged that the market risk to transferors following sale accounting effectively would have been captured through recognition of changes in the fair value of the forward repurchase contract accounted for as a derivative rather than through the continued recognition of the transferred financial asset and a borrowing. Some Board members considered and would have preferred an alternative path that would have broadened secured borrowing accounting for a wider population of transactions beyond repurchase-to-maturity transactions. However, ultimately, the Board decided that those approaches would not have resolved the concerns that led to undertaking this project or would have been beyond the scope of this narrow project.

BC21. The Board also considered whether a disclosure-only approach would be sufficient to address stakeholders' concerns. Under that approach, disclosures would have been required for repurchase-to-maturity agreements (and similar transactions) accounted for as sales under the derecognition framework but that result in the transferor retaining substantially all of the risk and rewards of the transferred financial assets. Some Board members noted that many stakeholders view disclosure as an inadequate substitution for accounting recognition. Ultimately, the Board concluded that an accounting change was warranted for repurchase-to-maturity transactions to align the accounting for those transactions and typical repurchase agreements given the similarities between those transactions and because of specific stakeholders' concerns that the current accounting model was not appropriately reflecting those transactions in the financial statements.

BC22. The Board determined that rather than amending the effective control guidance, the accounting change should be narrowly applied on an exception basis to repurchase-to-maturity transactions. Therefore, the Board decided to require that repurchase-to-maturity transactions be accounted for as a secured

borrowing as if the transferor maintains effective control over the transferred financial asset. The Board decided on this approach to substantially preserve the existing concepts of control and effective control in Topic 860. Consequently, the exception for repurchase-to-maturity transactions will not affect the assessment of other transactions under the effective control criteria. The Board observed that this approach has practical advantages, including clearly articulating which transfers are subject to the change in accounting guidance and avoiding unintended consequences. The Board concluded that this approach also expeditiously addresses stakeholders' concerns.

BC23. As a result of the Board's decision to create a limited exception for repurchase-to-maturity transactions, the Board decided to supersede the implementation guidance in paragraph 860-10-55-51 on the interpretation of the phrase *before maturity* for purposes of applying the effective control guidance. That implementation guidance indicated that a transferor's agreement to repurchase a transferred financial asset would not be considered a repurchase or redemption before maturity if, because of the timing of the redemption, the transferor would be unable to sell the financial asset again before its maturity (that is, the period until maturity is so short that the typical settlement is a net cash payment). The Board determined that guidance was no longer needed because the amendments in this Update specify that repurchase-to-maturity transactions, as narrowly defined in this Update, are required to be accounted for as secured borrowings. Furthermore, the Board observed that repurchase agreements and other similar transactions in which the transferred financial asset (or a substantially-the-same financial asset) is reacquired from the transferee at the settlement of the agreement at a fixed or determinable price before its maturity should be accounted for as secured borrowings. The Board concluded that those outcomes are consistent with the foundation of the current effective control model that distinguishes the accounting for repurchase agreements and other similar transactions based on whether the transferor ultimately reacquires the transferred financial asset from the transferee. That is, the current model, which is primarily based on the concept of control, generates different accounting for those transactions that are settled in cash and those that involve the reacquisition of the initially transferred financial asset, with the narrow exception created by the amendments in this Update for repurchase-to-maturity transactions. Although the Board acknowledged that the exception will result in accounting for repurchase-to-maturity transactions differently than similar transactions that are settled in cash before the maturity of the transferred financial asset, the Board viewed this to be a necessary change to resolve a narrow practice issue.

Repurchase Financings

BC24. The current guidance in paragraphs 860-10-40-42 through 40-47 addresses whether an initial transfer of financial assets and a repurchase financing with the same counterparty that are entered into contemporaneously with, or in contemplation of, one another should be linked for accounting

purposes or accounted for as separate transactions. The current guidance requires linked accounting in situations in which the transferor regains control over the initially transferred financial asset when considering all involvements of the transferor with the transferred financial assets. The repurchase financing entered into contemporaneously with, or in contemplation of, the initial transfer represents involvement with the transferred financial assets. The guidance permits separate accounting for a transfer of a financial asset and a repurchase financing if there is a valid business or economic purpose for the counterparties to enter into two transactions separately and the repurchase financing does not return control of the previously transferred financial asset to the initial transferor. To implement this concept, the guidance contains a rebuttable presumption that the two transactions are linked. However, the initial transfer and repurchase financing are not linked for accounting purposes if specific criteria are met at the inception of the transaction that indicate that control is not returned to the transferor. If required to be linked, the transactions should be combined and accounted for as a forward agreement to sell (purchase) a financial asset, which should be evaluated under Topic 815 on derivatives and hedging to determine if derivative accounting is required. If not linked, the transactions should be accounted for separately as a sale (by the initial transferor) and purchase (by the initial transferee) of a financial asset, assuming all derecognition conditions are satisfied, and a separate repurchase agreement (accounted for as a secured borrowing).

BC25. The Board observed that the condition that typically triggers the requirement to apply linked accounting in practice is when the financial asset that is being financed is not readily obtainable. The Board was concerned that the outcome under current guidance is that transactions in which the transferee is financing its purchase to maturity or the purchased financial asset is illiquid would result in linked accounting in those cases. Therefore, although a forward purchase agreement is recognized, under current guidance a transferee would recognize no asset in its statement of financial position and would not present separately the related financing of that position. The Board notes that this outcome is incompatible with the decision reached in this project that all repurchase agreements that meet specified criteria and repurchase-to-maturity transactions should be accounted for as secured borrowings.

BC26. In its deliberations leading to the proposed Update, the Board decided that requiring secured borrowing accounting for repurchase agreements that maintain the transferor's effective control over transferred financial assets and repurchase-to-maturity transactions should be its primary concern. Therefore, the Board eliminated the current requirement to link the initial transfer with the first leg of the repurchase agreement (that is, the transfer of the financial asset back to the initial transferor by the initial transferee) for accounting purposes. As a result of this decision, an entity is no longer required to identify such transactions and apply the criteria to determine if the presumption of linkage can be overcome. To implement this decision, the Board determined that it was

necessary to require that an entity consider the initial transfer and the repurchase agreement separately for the purposes of applying the derecognition conditions in paragraph 860-10-40-5 and not apply the requirement in paragraph 860-10-40-4(c) that requires consideration of all involvement with the transferred financial assets. The Board notes that this decision should not affect the application of the derecognition conditions to other transactions.

BC27. Most respondents to the proposed Update agreed with the proposed amendments to change the repurchase financing guidance and require separate accounting for an initial transfer and a related repurchase financing. Respondents who supported this change noted that separate accounting would more accurately reflect the economics of the agreements and would be consistent with the way an entity manages the various risks arising from investment activities. A small number of respondents disagreed with amending the guidance because they noted that it would inflate the volume of activity and would result in an overstatement of both assets and liabilities of the initial transferee in a manner that is inconsistent with the control model.

BC28. In redeliberations, the Board affirmed its decision to amend the repurchase financing guidance to achieve greater consistency in accounting for repurchase agreements as secured borrowings.

Substantially the Same

BC29. One condition for assessing effective control for repurchase agreements and other transactions is that the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred. Through outreach, the Board learned that there is diversity in applying the substantially-the-same guidance in practice. In particular, parties to mortgage dollar-roll transactions that involve the return of securities that are not identified at the inception of the transaction (to-be-announced securities) may reach different judgments in applying the substantially-the-same criteria, potentially resulting in asymmetrical accounting between the transferor and the transferee (for example, the transferor reflecting secured borrowing accounting and the transferee reflecting sale accounting). The Board also learned through outreach that the removal of the criterion pertaining to an exchange of sufficient collateral related to the transferor's ability to repurchase or redeem the financial assets on substantially the agreed-upon terms has resulted in an increased emphasis on the substantially-the-same guidance in practice in determining whether the effective control criterion is met and secured borrowing accounting can be applied.

BC30. The Board considered several approaches with the objective of reducing this diversity in practice. In deliberations leading to the proposed Update, the Board observed that the term *substantially the same* should be interpreted as a narrow construct. In the proposed Update, the Board proposed implementation guidance to narrow the application of the characteristic in

paragraph 860-10-40-24(c) by indicating that historical levels of prepayment speeds, other market information related to prepayment speeds, and market yields on similar securities could be considered in assessing this condition. Many respondents disagreed and noted that the proposed changes could be interpreted to suggest that the assessment is performed after the completion of the transaction or solely on historical experience rather than at inception of the transaction based on the contractual terms. Some respondents noted that the proposed requirement to consider historical yields on similar trades would be inoperable for transfers of existing assets and forward repurchases of to-be-announced securities executed through the Mortgage-Backed Securities Division (MBSD) of the Fixed Income Clearing Corporation (FICC), because member firms typically will receive securities as settlement only for their net position so that it is not possible to match a specific sale transaction to a specific repurchase transaction.

BC31. The Board considered those comments and determined that the proposed implementation guidance to consider historical data could be viewed as inconsistent with an evaluation of the current transaction. Additionally, it could be viewed as incompatible with existing implementation guidance that indicates that for transfers of existing securities under a dollar-roll repurchase agreement, the transferor is only required to obtain a commitment from the transferee that it will return a substantially-the-same security, even if that security is to-be-announced at the time of the initial transfer, and the transferor is not required to determine that the transferee holds the security that it has committed to return.

BC32. In redeliberations, the Board considered a practical approach of adding implementation guidance to articulate that a transaction executed in keeping with good delivery standards would not automatically result in the return of a substantially-the-same financial asset. Furthermore, the Board decided that trade stipulations that result in narrowing the characteristics of the asset to be returned in a manner that more closely mirrors the characteristics of the asset initially transferred result in a greater measure of control over the security that will be returned and, therefore, could satisfy the substantially-the-same characteristics. However, a dollar-roll transaction that is executed without any trade stipulations or no commitment from the transferee to return a substantially-the-same financial asset results in the transferor having no control over the assets that will be returned and, therefore, the financial asset to be returned could not be considered substantially the same as the financial asset transferred.

BC33. The Board solicited targeted feedback on this approach, and outreach participants generally disagreed, noting that the presence of trade stipulations as a determining factor in assessing a substantially-the-same financial asset does not align with market practice. Outreach participants generally noted that the substantially-the-same assessment requires judgment and rests on analyzing economic characteristics, particularly weighted-average maturity or weighted-average loan age to assess the market yield of the security to be returned. Some respondents agreed with the approach and noted that without parameters of

what security could be returned, the transferor does not have a commitment from the transferee to return a substantially-the-same financial asset.

BC34. The Board ultimately decided not to change the current guidance on the substantially-the-same condition within effective control. The Board noted that the initial focus of the project leading to this Update was the accounting for repurchase-to-maturity transactions and repurchase agreement disclosures and that the priority is to address the concerns that led the Board to undertake the project. In addition, the Board observed that there are a number of complex considerations related to the accounting for dollar-roll transactions, which represent a small segment of the overall to-be-announced security market. Therefore, the Board decided not to further deliberate the substantially-the-same guidance at this time.

Isolation

BC35. The Board decided that an agreement that involves a transfer of an existing financial asset that both entitles and obligates the transferor to repurchase or redeem the transferred financial asset in which the transferor does not maintain effective control should be evaluated under the other derecognition conditions in Topic 860 to determine whether sale accounting is required. Typical repurchase agreements involve the transfer of title resulting in the transferee obtaining the right to sell or repledge the financial assets pledged to it as collateral. If the condition in paragraph 860-10-40-5(b) is met, the condition for derecognition related to the isolation of transferred financial assets in paragraph 860-10-40-5(a) is determinative for a transfer of a financial asset and a contemporaneous agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial asset that do not maintain the transferor's effective control.

BC36. The Board observed that there are differences in how legal isolation is assessed depending on various factors, including the jurisdictions involved and whether the assets were subject to receivership by the Federal Deposit Insurance Corporation or some other insurer. The Board noted that in FASB Statement No. 166, *Accounting for Transfers of Financial Assets*, the isolation condition was amended to clarify that the condition is met only if the transferred financial assets would be beyond the reach of the transferor or any of its consolidated affiliates included in the financial statements being presented.

BC37. The Board was made aware that in some cases entities may be relying on paragraphs 203 and 204 from the basis for conclusions of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to conclude that the legal isolation criterion has been met. Those paragraphs state the following:

The American Law Institute describes the legal status of a securities lending transaction as follows:

The securities lender does not retain any property interest in the securities that are delivered to the borrower. The transaction is an outright transfer in which the borrower obtains full title . . . the borrower needs the securities to transfer them to someone else . . . if the securities borrower defaults on its redelivery obligation, the securities lender has no property interest in the original securities that could be asserted against any person to whom the securities borrower may have transferred them. . . . The securities lender's protection is its right to foreclose on the collateral given to secure the borrower's redelivery obligation. Perhaps the best way to understand securities lending is to note that the word "loan" in securities lending transactions is used in the sense it carries in loans of money, as distinguished from loans of specific identifiable chattels. Someone who lends money does not retain any property interest in the money that is handed over to the borrower. [Footnote reference omitted.]

While that description focuses on securities lending, much of it appears applicable to repurchase agreements as well. If judged by the criteria in paragraphs 9(a) and 9(b) and the legal reasoning in paragraph 203, financial assets transferred under typical repurchase or securities lending agreements would qualify for derecognition as having been sold for proceeds consisting of cash and a forward purchase contract. During the term of the agreement, the transferred assets are isolated from the transferor, are placed in the hands of a transferee that can—and typically does—obtain their benefits by selling or pledging them, and are readily obtainable in the market.

BC38. The Board noted that the assertions in paragraph 204 of the basis for conclusions of Statement 140 do not apply universally to all repurchase agreements. When Statements 125 and 140 were issued, the Board examined repurchase agreements that were common at that time, when most transactions in the United States involved U.S. Treasury securities that likely did meet the legal isolation condition because of specific regulations that make U.S.

Treasuries isolated and because they were readily obtainable. However, over time, repurchase agreements began to involve different types of assets and, in many cases, less liquid financial assets. Given the context of the transactions at the time that Statements 125 and 140 were issued, the Board observed that the comments in the basis for conclusions for those Statements were not intended to address all transactions.

Definition of the Terms *Repurchase Agreement* and *Repurchase-to-Maturity Transaction*

BC39. The Board determined that the Master Glossary term *repurchase agreement* that is referenced in Topic 860 should be amended to refer to financial assets more broadly, rather than only to securities. The Board decided to amend the definition so that it is consistent with the scope of repurchase agreements that are subject to the derecognition guidance in paragraphs 860-10-40-5(c)(1) and 860-10-40-24. That is, the derecognition guidance is applicable to repurchase agreements that involve transfers of any financial asset, such as a security or a loan.

BC40. The Board decided to define the term *repurchase-to-maturity transaction* to clearly describe the specific transaction that qualifies for the exception to the effective control guidance. The Board decided that explicitly defining the term establishes a clear exception to the effective control guidance, thereby addressing the scope concerns expressed by respondents to the proposed Update. The Board intends that no analogies be drawn from that exception.

BC41. The Board notes that the term *repurchase agreement accounted for as a collateralized borrowing* is referenced by Topic 210, Balance Sheet. The Board observed that the amendment of the term *repurchase agreement* in this Update for the purposes of applying the derecognition guidance in Topic 860 does not affect the scope or application of the disclosure requirements related to offsetting of assets and liabilities included in Section 210-20-50. Under the disclosure requirement in the amendments in this Update for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings, an entity must reconcile the gross obligation for the agreements to the amount of the gross liability for repurchase agreements and securities lending transactions disclosed in accordance with paragraph 210-20-50-3(a), before any adjustments for offsetting. The Board noted that any difference between amounts disclosed under Subtopic 210-20 and Topic 860 should be a reconciling item in order to facilitate an understanding of the relationship between the disclosures and to create a link to amounts reported in the statement of financial position for those transactions. For example, the term *repurchase agreement accounted for as a collateralized borrowing* that is used in Subtopic 210-20 refers only to securities, while the term *repurchase agreement* used in Topic 860 and in the amendments in this Update refers more

broadly to all financial assets. The Board decided not to align the definition of terms in the disclosure requirements in Topics 210 and 860 because this would have resulted in a potentially different scope of transactions being subject to derecognition guidance and disclosure requirements within Topic 860, which was not the Board's intention.

Transfers of Held-to-Maturity Securities with Forward Repurchase Agreements That Settle at the Maturity of the Transferred Securities

BC42. The Board decided in deliberations that led to the proposed Update that a transfer of a held-to-maturity debt security with a forward repurchase agreement that settles at the maturity of the transferred security accounted for as a secured borrowing under Topic 860 would not contradict the transferor's stated intent to hold the security to maturity under Topic 320, Investments—Debt and Equity Securities. Therefore, the transfer would not call into question the transferor's intent to hold other debt securities to maturity. The Board acknowledged that those transactions do not result in the transferor's recovery of the transferred financial asset at settlement because they are cash-settled (or net-cash-settled) transactions. However, in reaching this decision, the Board noted that the transferor would not derecognize the transferred security and, if settled gross, the transferor would receive the settlement value of the debt in cash, which is consistent with holding securities to collect contractual cash flows. The Board's decision on secured borrowing accounting for repurchase-to-maturity transactions remains consistent with these changes and, therefore, was not reconsidered during redeliberations.

Disclosures

BC43. Current U.S. GAAP requires separate reporting in the statement of financial position of financial assets that have been pledged in repurchase agreements and other transactions in which the transferee has the right to sell or repledge the financial assets. An entity is required to disclose the carrying amount and classification of any assets pledged as collateral that are not reclassified and separately reported in the statement of financial position, along with associated liabilities. An entity that has accepted collateral that it can (by contract or custom) sell or repledge is required to disclose the fair value of the collateral received, the portion that it has sold or repledged, and information about the sources and uses of that collateral. However, the Board noted that for most entities, disclosure requirements for repurchase agreements do not result in disclosing information about the nature of the collateral supporting them.

BC44. The proposed amendments would have required that any entity disclose the carrying value of the total secured borrowing (for example, the repurchase liability) disaggregated by the class of collateral pledged in accordance with fair

value disclosure guidance in paragraph 820-10-50-2B. The proposed amendments also would have required the total borrowings under those agreements to reconcile to the amounts reported in accordance with the offsetting disclosures required by paragraph 210-20-50-3(a), before any adjustments for offsetting. Respondents were mixed in their feedback on the disclosure of the disaggregation requirement by class of financial asset. While some noted that it would provide useful information, some preparer respondents noted that the proposed disclosures would not provide decision-useful information and voiced concern about the potential overlap with other proposed and final guidance, such as proposed Accounting Standards Update, *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk*, and Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*.

BC45. Additionally, the proposed amendments would have required that an entity disclose the amount of transfers accounted for as sales only because the repurchased assets are not substantially the same as those initially transferred, along with the reasons for any significant changes in those amounts from the previous reporting period. Respondents did not support the proposed Update's disclosure requirement for transfers accounted for as sales because of the substantially-the-same assessment. Those respondents noted that the substantially-the-same assessment is highly judgmental and that there are other circumstances in which accounting judgments are made without a requirement to disclose the basis for the judgment. Additionally, respondents cited an operational burden of complying because the scope of the disclosure could be interpreted to require an entity to track a broad range of transactions that do not meet the substantially-the-same characteristics. The Board considered those concerns and agreed that this proposed disclosure should not be required for the reasons cited by respondents.

BC46. In redeliberations, the Board considered the nature of disclosures that would complement the decision to provide a narrow exception to the effective control guidance for repurchase-to-maturity transactions. The Board noted that while this exception would result in an entity accounting for those transactions as secured borrowings, other similar transactions may be accounted for as sales with forward repurchase agreements if they do not meet the criteria to maintain the transferor's effective control. Additionally, the Board considered the objective of this phase of the project, which was to address concerns arising from transfers of financial assets with contemporaneous agreements that convey significant risks to the transferor regardless of the form of the transaction.

BC47. In light of those objectives in redeliberations, the Board decided that a disclosure objective should be to address the differential treatment of certain transactions that involve both a transfer of a financial asset accounted for as a sale and an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the

term of the transaction. Specifically, the disclosure requires an entity to disclose for transactions outstanding at the reporting date (a) the carrying amount of assets derecognized at the initial transfer, (b) gross cash proceeds received at the initial transfer, (c) the fair value of the assets derecognized by the transferor at the reporting date, (d) amounts recorded in the statement of financial position arising from the transaction at the reporting date, and (e) a description of the arrangements and the related risks that result in the transferor retaining exposure to the transferred financial assets. This information is required to be disclosed by type of transaction (for example, repurchase agreement, securities lending arrangement, and a sale and total return swap). Moreover, the Board decided to add a qualitative requirement to discuss reasons for changes in the amount of transfers accounted for as sales period-to-period and intraperiod to give users an understanding of the reasons behind any heightened activity or trends in changing sale activity over time. The Board considered an average-balance disclosure to achieve the same objective but noted that a qualitative discussion would achieve similar results while reducing the costs necessary to comply with a more quantitative approach. The Board concluded that those disclosures will provide information to facilitate an understanding of the nature of the transactions, the transferor's continuing exposure to the transferred financial assets, and the presentation of the components of the transaction in the financial statements. Accordingly, this disclosure will provide necessary information to facilitate a comparison between those transactions that might be economically similar but accounted for differently.

BC48. In redeliberations, the Board decided that the disclosure requirements should apply to transactions comprising both a transfer of financial assets to a transferee and an agreement done in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In describing the agreement that is executed in contemplation of the initial transfer of financial assets, the Board decided to refer to *exposure to the economic return on the transferred financial asset* to convey that an entity's position with regard to the underlying financial asset in those transactions differs from ownership of that asset. That is, an agreement such as a derivative transaction that references a financial asset can result in an entity obtaining exposure to the transferred financial asset but may not place the entity in a position that is identical to holding the asset, in which case the entity can choose to use the asset in any manner. The Board also acknowledged that determining whether the transferor retains *substantially all of the exposure to the economic return on the transferred financial asset* throughout the term of the transaction will require judgment.

BC49. The Board noted that its intention in referring to an agreement done *in contemplation* of the initial transfer was to capture those transactions that depend on the execution of one another and that are entered into for the same business purpose. The Board decided not to specify that transactions that involve an agreement entered into contemporaneously with the initial transfer (that is,

executed around the same time but may or may not be entered into for the same business purpose) are broadly captured by the scope of the disclosure requirements. The Board observed that contemporaneous execution of transactions is often evidence that the transactions are being entered into in contemplation of one another. However, the Board understands that entities may enter into contemporaneous transactions that, when taken together, otherwise would meet the intended scope of the disclosure requirements except that they are executed by separate business units within an organization as part of unrelated business strategies. The Board does not intend to capture those transactions that, despite being executed contemporaneously, do not contemplate the same business purpose.

BC50. Additionally, the Board decided to exclude from this disclosure transfers of financial assets that are accounted for as sales because they are deemed not to meet the substantially-the-same assessment in accordance with paragraph 860-10-40-24(a). The Board noted that the scope of the disclosure, which captures transactions that retain substantially all of the exposure to the economic return on the transferred financial asset, is similar to the analysis that must be performed under the substantially-the-same assessment for certain types of transfers. Although the Board acknowledged that transfers that would meet the disclosure threshold also would likely meet the substantially-the-same assessment, for practical reasons, the Board decided to provide explicit guidance to avoid requiring an entity to perform two assessments of the same transfer.

BC51. In redeliberations, the Board considered the type of incremental disclosures about repurchase agreements that would address stakeholders' concerns about the current lack of information about the nature and risks of those agreements. The Board considered a disclosure similar to the disclosure in the proposed Update of the disaggregated carrying amount of the gross obligation in repurchase agreements and other similar transactions accounted for as secured borrowings.

BC52. The Board conducted limited outreach with stakeholders to determine whether that disclosure would provide decision-useful information and whether it would meet the cost-benefit threshold. Users who participated in outreach supported the disclosure, noting that it would provide information about the risks of classes of collateral pledged in short-term financings that are generally not publicly available. Users noted that the changing liquidity of repurchase agreements was a factor during the recent credit crisis, thus warranting incremental disclosure for this transaction type. Nonuser stakeholders disagreed with the disclosure on the basis that liquidity disclosures often are already provided in the management discussion and analysis (MD&A) section required for SEC filings and if addressed further should be considered comprehensively, with some noting that piecemeal liquidity disclosures may misrepresent an entity's overall liquidity risk. Some Board members acknowledged that the information also could be beneficial for other types of transactions, including derivatives and other collateralized borrowings, and that providing the information

on a piecemeal basis for a certain population of transactions may lead to potential confusion about an overall entity's liquidity risk.

BC53. Ultimately, the Board decided to require disclosure of the carrying amount of the entity's gross obligation related to repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions, disaggregated to provide detail on the underlying pledged collateral. Overall, the Board agreed with users that, despite not being a comprehensive liquidity risk disclosure, the information provided would still be decision useful because it provides information on an important source of financing for many entities. Furthermore, the Board concluded that disclosures of this type will provide users with decision-useful information about the collateral pledged. In cases in which the collateral pledged is a recognized financial asset, the transferred financial assets are not available for an entity's use and the funding connected to the collateral pledged exposes the entity to certain risks. Additionally, information about the class of collateral pledged underlying an entity's agreements currently is not publicly available, and the type of collateral pledged and volume of those transactions can significantly change the entity's risk profile.

BC54. The Board considered expanding that disclosure to add incremental components to provide additional transparency about the type of collateral pledged and the related liability. The Board considered requiring disclosure of the fair value of the collateral pledged alongside the gross obligation in order to provide an understanding of the difference between the two, which may highlight the potential risk of deepening "haircuts," or amounts of overcollateralization required, by class of collateral pledged. The Board also contemplated requiring disclosure of the remaining weighted-average contractual maturity of the underlying collateral pledged to provide users with information to gauge price changes related to interest rate risk.

BC55. In limited outreach, preparers cited operational challenges to providing both fair value and contractual maturity information about the underlying collateral pledged for significant segments of their repurchase agreement activity. In certain arrangements, such as general collateral finance agreements cleared through FICC, collateral is transferred on a net basis for all transactions with the same counterparty. As a result of the movement of only a net amount of collateral to settle those arrangements, a disclosure requiring transaction-level detail for individual transfers on a gross basis is inoperable. Additionally, preparers noted that for certain repurchase agreements, an entity has the ability to substitute collateral for the types of collateral pledged. As a result, those preparers noted that the utility of the information of providing maturity information related to the collateral pledged was diminished because of the potential to change the types of collateral supporting the agreements.

BC56. The Board weighed a number of disclosure alternatives to both accommodate the settlement netting that is occurring for certain repurchase agreements and still provide information deemed important to users, particularly

related to “haircut” levels. However, the Board ultimately decided to require the disclosure of the gross obligation disaggregated by the type of collateral pledged without the incremental components of fair value and contractual maturity of collateral pledged. The Board concluded that the base disclosure provides users with important information about the types of collateral supporting those agreements. The Board determined that any alternatives to address the other components that would be sufficient to satisfy users’ needs would require further research and analysis. Furthermore, the Board noted that limiting the disclosures to a disaggregation of the gross obligation on the basis of collateral pledged met the main need of users by providing transparency about those types of agreements and balances the priority to move the project forward in an expeditious manner.

BC57. The Board also decided to require disclosure of the remaining contractual maturity (tenor) of repurchase agreements and securities lending arrangements. Users noted that the tenor of the agreement would provide important information about the risk associated with the liability recorded. The Board understands that while repurchase agreements are generally relatively short term and are often rerolled, a disclosure of tenor would provide users with an understanding of potential liquidity concerns when more illiquid collateral is pledged in those agreements. The Board initially decided to require an integration of the requirement to disaggregate the gross obligation by the class of collateral pledged with the requirement to disclose the remaining tenor of the agreements. However, on the basis of concerns about the operational feasibility of combining collateral type and remaining tenor given the level of granular data required, the Board decided not to require the integration. On the basis of input from users, the Board also considered requiring disclosure of similar information, including counterparty information, for reverse repurchase agreements and securities borrowing agreements to provide insight into the risks of lending in those arrangements, especially if there is a concentration of credit risk. The Board decided not to expand the disclosure to reverse repurchase agreements and securities borrowing agreements, noting that the focus of this project has been on the transferor’s position.

BC58. The Board considered requiring this disclosure for transfers accounted for both sales and secured borrowings. However, the Board decided to limit the scope of the disclosures to repurchase agreements, securities lending arrangements, and repurchase-to-maturity transactions accounted for as secured borrowings in the statement of financial position to provide a means to reconcile to the amount disclosed under the offsetting disclosures in paragraph 210-20-50-3(a) and to the balance sheet. The Board noted that limiting the scope of those disclosures also would address some of the concerns about operability that preparers expressed about assessing a number of different types of transfers with continuing involvement.

Transition

BC59. In the proposed Update, the Board proposed either a cumulative-effect transition approach or a prospective transition approach depending on the type of transaction. For transfers with forward repurchase agreements that settle at the maturity of the transferred financial asset and repurchase financings that involve such agreements, the Board proposed a cumulative-effect transition approach. The Board noted that those transactions potentially could be long-term transactions and that concerns about the current accounting for them were the main reason for undertaking the project. The Board decided to require a modified retrospective application for those transactions outstanding at the period of initial adoption (a cumulative-effect approach).

BC60. For all other transactions that would be affected by the amendments in the proposed Update, the Board proposed a prospective application approach. This was because the vast majority of repurchase agreements and other transactions within the scope of the proposed Update generally are short term. Most agreements initiated before the issuance of the final Update would likely no longer be outstanding as of its effective date. Therefore, the Board would expect minimal benefit from a cumulative-effect transition related to transactions that may be outstanding as of the effective date of the Update. The Board noted that, consistent with past standards on repurchase agreements, this transition method would include modifications of existing transactions. That is, an entity would not be permitted to continue to apply previous accounting requirements to transactions modified after the effective date.

BC61. Some respondents to the proposed Update recommended that the amendments be applied prospectively to all transactions because that would be consistent with past changes to derecognition accounting principles. Others requested that the Board consider permitting full retrospective application for other than repurchase-to-maturity transactions, with an emphasis on retrospective application for linked repurchase financing transactions. Those respondents noted that a full retrospective application would result in consistent application across reporting periods.

BC62. The Board decided to require a cumulative-effect transition approach. While the Board acknowledged that past projects related to repurchase agreements required a prospective application approach, the Board concluded that a prospective transition may dilute the effectiveness of the disclosures, particularly with regard to the disclosures for transfers accounted for as sales. For example, if the Board had decided on a prospective transition approach, some repurchase-to-maturity transactions that were entered into after the effective date would have been accounted for as a secured borrowing, while repurchase-to-maturity transactions that were entered into before the effective date but were still outstanding would have been accounted for as a sale and included in the disclosure requirements. Therefore, the Board decided that a

cumulative-effect approach that requires an entity to apply the amendments to transactions outstanding as of the effective date with no adjustment to prior periods presented is the most appropriate and consistent approach.

BC63. The Board considered but decided not to require full retrospective application because that transition method would not have been practical or cost-beneficial in this case. While full retrospective application maximizes consistency of financial information between periods and generally enhances the usefulness of information, most repurchase agreements are short term and those that would be entered into before the issuance of the final Update would likely no longer be outstanding as of its effective date.

BC64. The Board also considered whether the effective date should be the same for both public business entities and all other entities. Respondents had mixed views on whether entities other than public business entities should be granted additional time for transition. Some respondents noted that the effective date should be the same for both types of entities and expressed a preference for a specific universal adoption date for all entities. Others noted that entities other than public business entities should be granted additional time to comply with the change in operations that the amendments may require.

BC65. With the exception of the disclosure related to repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings, the Board decided that the amendments in this Update should be effective for public business entities for the first interim or annual period beginning after December 15, 2014. For all other entities, the Board decided that this Update should be effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. For public business entities, the Board decided that the secured borrowings disclosure should be required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. For all other entities, the secured borrowings disclosure is required for annual periods beginning after December 15, 2014, and for interim periods beginning after December 15, 2015. Preparers requested a full year of implementation time to comply with that requirement, and the Board agreed to extend the effective date for that requirement for public business entities given their earlier effective date.

BC66. The Board decided to grant entities other than public business entities an option to early adopt the amendments in the Update for interim periods on the same timeline as public business entities, which is for interim periods beginning after December 15, 2014. In providing a delayed effective date for entities other than public business entities for interim periods, the Board considered the Private Company Decision-Making Framework. The Board noted that the needs of users of nonpublic business entities' financial statements with repurchase agreements and similar transactions affected by this Update would not be different from those needs of users of public business entity financial statements. However, the Board acknowledged that nonpublic business entities may benefit from the opportunity

to learn from the experience of public business entities in initially applying the new accounting and disclosure requirements. Additionally, the delayed effective date for interim periods provides nonpublic business entities with additional time for initial transition while still expeditiously providing users with the benefits of the Update for annual reporting on the same timeline as public business entities.

Benefits and Costs

BC67. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements. While the Board acknowledges that some entities may incur costs as a result of the amendments, the Board concluded that the improvements provided by those amendments will justify the costs incurred.

BC68. Throughout the project, the Board carefully analyzed the costs and benefits of various paths forward. The amendments require an entity to change the accounting treatment of repurchase-to-maturity transactions. The Board expects that the costs of changing the accounting treatment for those transactions will be minimal because that treatment is consistent with the accounting for other typical repurchase agreements. Additionally, the amendments eliminate the requirement to determine whether repurchase agreements entered into as part of a repurchase financing should be accounted for separately or linked with the initial transfer for accounting purposes. The Board notes that those changes will reduce costs because an entity is no longer required to identify those transactions and assess linkage between initial transfers and repurchase financings. The Board concluded that users of financial statements will benefit from the consistent accounting treatment of repurchase-to-maturity transactions and repurchase financings and other typical repurchase agreements.

BC69. The Board concluded that the cumulative-effect transition, which requires an entity to apply the guidance to transactions outstanding as of the effective date, is the most appropriate transition method because it provides comparable information between entities and does not require adjustments to prior periods presented. However, the Board acknowledges that it does not provide comparable information year over year.

BC70. Under the new disclosure requirements, an entity is required to disclose certain information for transactions that involve a transfer to a transferee accounted for as a sale with an agreement with the same transferee entered into in contemplation of the initial transfer in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets. The Board leveraged existing reporting requirements in Topic 860 on transfers accounted for as sales, but not currently being applied to repurchase agreements, to minimize the costs associated with implementing the required disclosures. Additionally, the Board is requiring a new disclosure for repurchase agreements, securities lending arrangements, and repurchase-to-maturity transactions accounted for as secured borrowings, encompassing information about both the agreements and the financial assets transferred. The Board acknowledges that preparers will incur costs when implementing these new disclosures, including costs to update operating systems.

BC71. While the Board acknowledges those costs, it concluded that the disclosures required by this Update will improve comparability of transfers of financial assets that retain substantially all of the exposure to the economic return on the transferred financial assets that are accounted for as sales with similar transfers accounted for as secured borrowings. Additionally, the Board concluded that the disclosures will increase transparency about the types of assets pledged and the associated liability for repurchase agreements, securities lending arrangements, and repurchase-to-maturity transactions. The disclosures also will provide users with the needed transparency to understand the risks of those transactions while balancing preparer costs by limiting the scope of the disclosure to certain types of transactions, as discussed in paragraph BC53.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2015 UGT, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2014.