

PricewaterhouseCoopers LLP 400 Campus Dr. Florham Park NJ 07932 Telephone (973) 236 4000 Facsimile (973) 236 5000 www.pwc.com

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Mr. Russell G. Golden Director of Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 140-d

LETTER OF COMMENT NO. 14

Dear Mr. Golden:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the guidance that the Financial Accounting Standards Board has proposed in FASB Staff Position No. 140-d, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.

We support the Board's efforts to clarify FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (FAS 140), regarding whether and when to separately account for certain transactions that are entered into in contemplation of each other. We support the objective set out in paragraph 6 of the proposed FSP that a transfer and a related repurchase financing, either entered into at the same time or subsequently, should be accounted for separately if the transactions have a valid business or economic purpose for being entered into separately.

However, while the proposed FSP may meet the Board's goal of linking certain transactions that do not meet this objective, we believe the proposed approach (whereby linkage is presumed unless certain criteria are met) and the proposed criteria will result in many transactions being linked that we believe were not originally contemplated when the Board embarked on this project. The main reasons for our view can be summarized as follows:

- 1. Paragraph 4 of the proposed FSP states that "The lapse of time between the initial transfer and the repurchase agreement is not relevant when determining if the transaction is a repurchase financing within the scope of this FSP." We believe that the lapse of time between the initial transfer and the repurchase agreement may be relevant, and in some cases integral, to the intent and business purpose of the transaction.
- 2. Under the proposed FSP, financial assets may be recognized separately if, among other things, the inputs used to measure their fair values are Level 1 inputs only, as defined in the fair-value hierarchy that was established by FASB Statement No. 157, Fair Value Measurements) (FAS 157). Any repurchase financings involving financial assets whose fair values are not measured using Level 1 inputs (e.g., mortgage loans, matrix-priced corporate bonds) would not be eligible for separate accounting. While we understand the Board's



rationale that the uniqueness of the asset is important in making the determination of linkage, we find the Level 1 requirement too restrictive and believe it could result in transactions being linked despite meeting the proposed FSP's objective for when separate accounting would be appropriate.

3. The proposed FSP defines a repurchase financing agreement as a repurchase agreement as described in FAS 140. However, that description and the fact that the proposed FSP requires that the substance of the transaction be considered in a determination of whether a repurchase financing exists, appears to expand the scope of the proposed FSP to other arrangements, including securities-lending transactions and margin-lending arrangements. We believe this is not appropriate and is not the Board's intent.

We also believe that the implementation of the proposed FSP will present many companies with significant operational challenges. Of particular concern is the need to assess subsequent repurchase financing transactions that occur during the entire life of the asset. This could be very onerous and especially complex for companies that operate in many jurisdictions and use different trading systems and procedures. Other complex requirements under the proposed FSP include identifying the initial transfer and determining how to link transactions involving financial assets that are traded in large volumes and managed on an aggregate product basis (an example highlighting this concern is included in the detailed comments attached to this letter). Feedback we have received from preparers indicates that information necessary to make the critical assessments under the proposed FSP is likely to be unavailable the greater the period between the initial transfer and the repurchase financing.

In light of these concerns, we recommend that an indicator-based approach, such as the one suggested at the Board's May 8, 2007 meeting, be considered. Such an approach could provide an accounting model that meets the proposed FSP's objective and is more operational than what is being proposed. An indicator-based approach would require determining whether an initial transfer of financial assets and a subsequent repurchase financing of those financial assets between the same counterparties should be linked based on the facts and circumstances specific to the case in question. The availability of alternative financing would be an important factor to consider in evaluating the business or economic purpose of repurchase financing transactions and determining whether certain transactions should be linked. Precedence for this indicator-based approach exists in FAS 133 Implementation Issue No. K1, Determining Whether Separate Transactions Should Be Viewed as a Unit, and in FAS 133 Implementation Issue No. F6, Concurrent Offsetting Matching Swaps and Use of One as Hedging Instrument.

Given the operational challenges of implementing the proposed FSP and what preparers have told us, we believe that if the guidance goes into effect for years commencing after November 15, 2007, preparers will have insufficient time to make the necessary changes to their systems, procedures, and controls.

We appreciate the opportunity to express our views on the proposed FSP. If you have any questions regarding our comments, please contact Thomas Barbieri (973-236-7227) or Jeff Naumann (973-236-7182).

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PricewaterhouseCoopers LLP's Specific Comments on Proposed FSP FAS 140-d Described in the "Notice to Recipients of This Proposed FASB Staff Position"

Criteria in paragraph 7

Criterion A

Because the accounting model in the proposed FSP presumes that transactions should be linked, companies must demonstrate that they meet all of the criteria in paragraph 7. We question whether companies will be able to demonstrate that there is no "implied commitment," particularly when the time period between the initial transfer and the repurchase financing is significant, because in those situations we believe it will be less likely that a company will have the necessary information to make this demonstration. Accordingly, those companies will resign themselves to accounting that links the two transactions, even though that was not the intent or business purpose of the transactions. We encourage the Board to thoroughly explore the extent to which this provision can be operationalized.

Criterion C

The proposed FSP eliminates the ability to use secured borrowing accounting for certain assets. The reason is that if the fair value of an asset is not measured using a Level 1 input, the transferee cannot provide evidence that the decision to execute the repurchase financing with the same counterparty is not based solely on the uniqueness of the asset. This approach does not appear appropriate for situations in which the transactions are entered into separately for a valid business or economic purpose. We disagree that transactions may be considered independent (not linked) only if the financial asset has a quoted price in an active market (Level 1 input). Many investment-grade corporate bonds are "matrix priced" (Level 2 inputs) and would therefore not meet proposed criterion (c). However, FAS 157 acknowledges that use of matrix pricing (which is one example of an alternative pricing method that does not rely exclusively on quoted prices) can be a practical expedient to the use of Level 1 inputs. We believe that a company's decision to use matrix pricing as a practical expedient when determining the fair value of an asset should not automatically disqualify it from reaching a conclusion that the transactions are not linked.

Accordingly, we recommend that the term "readily obtainable" be used in place of the Level 1 input requirement so that the first sentence of criterion (c) would read "the financial asset subject to the initial transfer and repurchase financing has a readily obtainable price."

Criterion D

Our recommended change to criterion (c) would serve to make operational the second sentence in criterion (d), which requires that the transferor cannot sell or repledge the collateral before the settlement of the repurchase financing, unless the asset is readily obtainable. Absent our recommended change to criterion (c), the second sentence in criterion (d) is unnecessary because the concept it describes is already iterated by criterion (c).

In certain markets collateral is fungible and readily attainable. Therefore, criterion d (i.e., the initial transferee is able to take control of the transferred financial asset and substitute it with a different financial asset) appears to be a non-substantive indicator of a business or economic purpose.

Scope

Paragraph 4 and footnote 1 of the proposed FSP define a repurchase financing agreement as a repurchase agreement as described under FAS 140. However, FAS 140's definition of a repurchase agreement is sufficiently broad that it may be viewed as including securities-lending transactions. Footnote 2 goes on to require that the substance of the transaction be considered in a determination of



whether a repurchase financing exists. These footnotes appear to expand the scope of the proposed FSP well beyond repurchase agreements to include securities-lending transactions and perhaps margin-lending arrangements. We recommend that these footnotes be revised to ensure that securities-lending transactions and margin-lending arrangements are not included in the scope of the proposed FSP.

Operationality

We believe that the proposed FSP will be very difficult for many companies to implement. In particular, the need to assess subsequent repurchase financing transactions during the entire life of the asset (rather than assess just simultaneous transactions) may prove onerous and be especially complicated for companies that operate in multiple jurisdictions and have different systems and processes. Further, depending on how long ago the initial transfer occurred, difficulties may arise in obtaining access to or determining the existence of historical records.

Certain market participants manage their portfolios on an aggregate product basis and may not establish financing for future settled positions on an individual security basis. Due to the high liquidity and fungible nature of certain products (e.g., mortgage-backed and government securities), market participants transact in many trades each month with a finite number of counterparties. Under the proposed guidance, there will be cases in which the combination of buy and sell transactions will need to be linked with repurchase financings (e.g., dollar rolls or repurchase agreements) not executed in contemplation of financing the original transfer. As illustrated in the following example, it may be operationally challenging to identify and link these transactions.

Examples

Company X enters into the following transactions with respect to "substantially similar" U.S. agency mortgage backed securities.

Scenario 1: Assume the following series of transactions with the following two repo transaction scenarios.

Trade Date/ Settle Date	Transaction	Counterparty	
1/05/06 - 1/15/06	Buy \$100	Α	
1/10/06 - 1/15/06	Sell \$50	В	
2/01/06 - 2/15/06	Sell \$50	С	
3/01/06 - 3/15/07	Buy \$50	В	
3/10/06 - 3/15/07	Buy \$50	D	

Scenario 1A - Repo with Counterparty A

Trade Date/ Settle Date	Transaction	Counterparty
6/05/06 - 6/15/06 (leg 1)	Repo \$100	Α
6/05/06 - 7/15/06 (leg 2)		

Should the Company link the \$100 repo with A with the \$100 purchase from A five months earlier or should the Company recognize that as of 2/15/07 it had sold its entire position purchased from A?



Scenario 1B - Repo with Counterparty B

Trade Date/ Settle Date	Transaction	Counterparty	
6/05/06 - 6/15/06 (leg 1)	Repo \$100	В	
6/05/06 - 7/15/06 (leg 2)			

Should the Company link \$50 of the \$100 and treat the other \$50 as a repo?

Scenario 2:

Trade Date/ Settle Date	Transaction	Counterparty	
1/05/06 - 1/15/06	Buy \$100	Α	
1/8/06 - 1/15/06	Buy \$100	D	
1/10/06 - 1/15/06	Sell \$50	В	
2/01/06 - 2/15/06	Sell \$50	С	
3/01/06 - 3/15/07	Buy \$50	В	
3/10/06 - 3/15/07	Buy \$50	E	
6/05/06 - 6/15/06 (leg 1)	Repo \$100	Α	
6/05/06 - 7/15/06 (leg 2)			
6/05/06 - 6/15/06 (leg 1)	Repo \$100	D	
6/05/06 - 7/15/06 (leg 2)			

Would the Company have linked transactions with both A and D on the two repo transactions or only one of the two (and which) given that only \$100 of the original purchases from A and D was remaining as of 2/15/07?

Costs, procedures, controls, and systems (including time to implement)

The time that will go into implementing the proposed FSP and the costs to be incurred are likely to vary significantly among preparers. Determining factors include the extent to which a company enters into transactions affected by this guidance; the number of locations in which a company operates; and the company's current level of system integration. Because the proposed FSP requires that transaction information be retained for the life of an asset, companies may have to incur additional costs to enhance their data storage.

Other implementation issues

Under the proposed FSP, accounting records will need to be retained for the life of the asset. This raises potential legal questions about the implications of requiring a company to retain records beyond what is currently required by law. We recommend that the Board consider those questions thoroughly before finalizing the FSP.

We believe it would be helpful if the FASB were to clarify how a company should account for transfers that were originally treated as a sale and under the proposed FSP must be treated as a financing due to a subsequent repurchase financing transaction. We recommend clarifying that such a transfer would be accounted for under paragraph 55 of FAS 140.



Transition provisions

Preparers have told us that if the guidance goes into effect for years commencing after November 15, 2007 (as proposed), they will have insufficient time to make the necessary changes to their systems, procedures, and controls.