

January 14, 2011

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

**File Reference No. 1900-100**  
**Re: Proposed Accounting Standards Update, *Reconsideration of Effective Control for Repurchase Agreements***

Dear Technical Director:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Reconsideration of Effective Control for Repurchase Agreements*.

We support the Board's objective to improve and simplify the assessment of effective control for repurchase agreements. In addition, we agree with the Board's conclusion to remove the criterion that requires the transferor, in the assessment of effective control, to obtain sufficient collateral to be able to repurchase or redeem the transferred financial assets even in the event of default by the counterparty (i.e., the "transferor ability criterion"). This conclusion is also consistent with IFRSs. Accordingly, we support the elimination of the transferor ability criterion and its related implementation guidance.

We also encourage the Board to continue to work closely with the IASB to further converge the accounting guidance on derecognition of financial assets and financial liabilities. This accounting topic continues to be of great importance, especially in light of the recent economic turmoil in the global financial markets.

Appendix A of this letter includes our responses to the questions for respondents in the proposed ASU. Appendix B contains our additional comments on the proposed ASU.

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

Yours truly,

Deloitte & Touche LLP

cc: Bob Uhl

**APPENDIX A**  
**Deloitte & Touche LLP**  
**Responses to Questions**

**Question 1: Would the proposed amendments represent an improvement and simplification to the assessment of effective control for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity? Are the proposed amendments clear and appropriate? Will the proposed amendments result in financial reporting that provides users with decision-useful information?**

We believe that the proposed amendments improve and simplify the assessment of effective control for repurchase agreements.

In our view, the requirement for the transferor to obtain sufficient collateral to be able to repurchase or redeem transferred financial assets on substantially the same terms in the event of default by a transferee should not be a consideration in the evaluation of whether the transferor has maintained effective control. We think that the legal right and obligation to repurchase the transferred financial assets, along with the other criteria in ASC 860-10-40-24, are sufficient for an entity to conclude that the transferor maintains effective control over the transferred financial assets.

**Question 2: The Board plans to require that the amendments in the final Update be effective for entities as of the beginning of the first interim or annual period after its issuance. Are there any significant operational issues that the Board should consider in determining the appropriate effective date for the final amendments?**

*Effective Date*

We support the Board's decision to require that any final standard be effective for entities as of the beginning of the first interim or annual period after issuance, provided that financial statement preparers are able to implement the proposal in such a relatively short period of time. We encourage the Board to obtain feedback on whether the effective date is operational from preparers in industries that are primarily affected by this proposed ASU, including the investment management industry.

*Transition*

Some repurchase transactions, such as "overnight" repurchases, may occur under a master agreement (or umbrella agreement) that allows for the occurrence of multiple repurchase transactions over a specified period. The guidance appears to require entities to grandfather transactions that occur under the master agreement before the effective date and to apply the proposed ASU to account for any transfers under the master agreement that occur after the effective date. We recommend that the Board further clarify its intent for such arrangements.

**Question 3: Paragraphs BC16 and BC17 set out the Board's assessment of the costs and benefits of the proposed requirements. Do you agree with the Board's assessment that the benefits of the proposals outweigh the cost? Why or why not?**

We agree.

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**Question 4: Should the amendments in this proposed Update be different for nonpublic entities (private companies and not-for-profit organizations)? If the amendments in this proposed Update should be applied differently to nonpublic entities, please provide a rationale for why.**

We believe that the amendments in the proposed ASU should be the same for both public and nonpublic entities.

**APPENDIX B**  
**Deloitte & Touche LLP**  
**Additional Comments**

**Potential for Form Over Substance Under ASC 860**

We support the proposed ASU and believe that it achieves the Board's objective to improve and simplify the accounting for the assessment of effective control for repurchase agreements. In part, we support the proposed ASU because it eliminates one of the bright lines in ASC 860 that arguably caused transactions with substantially the same economic substance, but different forms (i.e., whether the transaction was sufficiently collateralized), to be accounted for differently.

The following are examples of other potential bright lines in ASC 860 that could produce the same "form-over-substance" issue addressed in the proposed ASU:

- ASC 860-10-40-24(a) lists six criteria that must be met for the repurchased asset to be considered "substantially the same" as the transferred asset (otherwise the repurchase transaction is accounted for as a sale). For example, the second criterion requires the "identical form and type so as to provide the same risks and rights", and the sixth criterion requires "the same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved." It would appear that an entity could structure repurchase transactions that just pass or just fail to meet these or the other criteria without significant differences in the economics of the transactions. The third criterion requires "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)." This criterion sets fundamentally different standards for transactions, depending on whether the underlying is a mortgage-backed pass-through or other security.
- Effective control is only maintained if the transferor is entitled and obligated to repurchase or redeem transferred financial assets before their maturity. Under ASC 860-10-40-25, if the repurchase transaction includes a net settlement option that is held by the transferee, the transferor would most likely conclude that it is not entitled and obligated to repurchase or redeem the transferred financial assets before their maturity (thus achieving sale accounting). The net settlement option dramatically changes the outcome of the sale accounting analysis, even though the transferor and transferee agreed to add this option to the contract only to achieve sale accounting, without the transferee having any intention to exercise it.

We acknowledge that addressing all the bright lines in ASC 860 most likely involves a broader reconsideration of this Topic and that such a project is not currently one of the Board's top priorities. However, the proposed ASU may place additional strain on other provisions of ASC 860, producing results that are not consistent with the Board's intended application of the Topic. Thus, we recommend that the Board consider whether additional, narrowly focused changes to ASC 860-10-40-24 and 40-25 are feasible as part of this proposed ASU. At a minimum, the Board should continue to monitor the application of ASC 860 through its post-implementation review process and interactions with regulators to ensure that practices continue to be consistent with the Board's intent.

Furthermore, we encourage the Board to consider whether existing disclosure requirements are sufficient for situations in which an entity achieves sale accounting but has continuing

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involvement with the assets sold (or similar assets) — for example, for repurchase agreements that are accounted for as sales. The Board could also consider the SEC’s recently issued rule, *Short-Term Borrowings Disclosure*, which requires registrants to provide, in their MD&A, additional disclosures about short-term borrowing arrangements, including transactions that typically occur at the end of a period (also referred to as “window dressing”). A final ASU should also remind constituents of any existing relevant disclosure considerations related to repurchase arrangements (whether accounted for as sales or borrowings).

In the long term, we see an opportunity for the FASB and IASB to jointly redeliberate the remaining differences in derecognition guidance on transfers of financial assets and financial liabilities, and ultimately to develop a single set of high-quality principles in this area.

### **Dollar-Roll Repurchase Transactions**

ASC 860-10-55-60 states, in part, that “Types 1–3 of dollar rolls would qualify for secured borrowing treatment if the redemption of securities on substantially the same terms is assured (see paragraph 860-10-40-24).” This sentence implies that redemption is assured because the transferor has the ability to repurchase or redeem the securities. We recommend deleting the sentence or modifying the paragraph, since the proposed ASU eliminates the transferor ability criterion (i.e., subparagraph (b) of ASC 860-10-40-24). For example, the sentence or paragraph could be modified to focus on the remaining criteria in ASC 860-10-40-24.