

**From:** Terence Ma [mailto:terence.ma@cmetllc.com]  
**Sent:** Thursday, November 01, 2012 10:32 AM  
**To:** Director - FASB  
**Subject:** FW: FASB's Decisions Reached on Repurchase Agreements

My name is Terence Ma. I am the CFO of South Street Securities (“SSS”), an SEC-registered broker-dealer that specializes in repo financing for investors in U.S. Treasuries, as well as, debentures and mortgage-backed securities issued by government-sponsored entities (“GSEs”). We are deeply concerned about the FASB’s recent decisions reached on repo-to-maturity agreements (“RTMs”) in its October 3<sup>rd</sup> meeting and decided to reach out to you and request that the FASB reconsider the risk-and-reward principle for RTM.

We are in full support of the objective of the FASB’s decision: To eliminate the abuses of repo sale accounting infamously illustrated by the demises of Lehman Brothers and MF Global. We also agree that the current “control” model fails to take into consideration the substantial amount of risk retained by the transferors in those situations. However, to require all types of RTMs be treated as secured financing will unnecessarily distort the capital market mechanism through which the U.S. Treasury and the GSEs finance their operations. The FASB’s objective can be achieved with the adoption of the risk-and-reward principle, instead of the full scope expansion of secured financing.

Perhaps, a brief description of the Treasury and GSE segments of the repo market would clarify our position. Notes and bonds (collectively “debentures”) issued by the U.S. Treasury and GSEs are typically purchased by the primary dealers and the GSE underwriters, respectively, in auctions. Upon successful bidding, these major dealers would sell the debentures to their customers, e.g., money funds, pension funds and corporate treasurers. To minimize the usage of their balance sheets, they may refer their customers to repo dealers like SSS to finance the purchases and sell part of their unsold inventory to SSS. SSS in turn finances its purchases in the repo market through the maturity of each of the debentures and treats each RTM as a sale under the current control model. Due to the following unique features of these RTMs, all of our RTMs would also qualify as sales under the risk-and-reward principle:

- Unlike a typical repo, these RTMs contain no right of substitution, i.e., SSS may not call back the debentures from the transferees, and the transferees may not put the debentures back to SSS; and,
- The Treasury and the GSEs pay the coupon interest and principal directly to the transferees.

Similar to all other RTMs, SSS retains the issuer default risk; that is, if the issuer defaults, the transferee has recourse on SSS. In accordance with the risk-and-reward principle, if we conclude that it is highly probable that the U.S. Treasury and the GSEs (with the U.S. Treasury’s guarantee) would honor their obligations, SSS has substantially transferred its risk. Conversely, in the valuation of certain European sovereign debts and subprime mortgages, the risk of

default is a dominant factor. Under these circumstances, sale accounting would not be appropriate.

If these Treasury and GSE RTMs are treated as secured financing, SSS and many other repo dealers will have to discontinue their participation in this financing mechanism due to the stringent regulatory, specifically FINRA, capital requirement imposed on Treasury and GSE debentures held on balance sheet. Without the repo dealers to unload their unsold inventory, the primary dealers' and the GSE underwriters' ability to bid in auctions will be impaired and the distribution channel to the investors will be distorted.

If you have any questions, please feel free to contact me in email or call me at 212-803-5050, and visit our website at <http://southstreetholdingsinc.com/> for a more detailed description of our business.

Sincerely,

Terence

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