

# FINANCIAL ACCOUNTING SERIES

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## EXPOSURE DRAFT

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### *Proposed Accounting Standards Update*

Issued: January 15, 2013  
Comments Due: March 29, 2013

## Transfers and Servicing (Topic 860)

### Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

This Exposure Draft of a proposed Accounting Standards Update of Topic 860 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director  
File Reference No. 2013-210

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*<sup>®</sup> 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.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft and is requesting comments by March 29, 2013. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB's website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2013-210
- Sending written comments to "Technical Director, File Reference No. 2013-210, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

# Proposed Accounting Standards Update

## Transfers and Servicing (Topic 860)

### Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

January 15, 2013

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# Summary and Questions for Respondents

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

Transactions such as repurchase agreements and securities lending transactions involve a transfer of a financial asset and a contemporaneous agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset. If specific criteria are satisfied, agreements that both entitle and obligate a transferor to repurchase or redeem transferred financial assets result in the transferor's maintaining effective control over transferred financial assets and, thus, should not be accounted for as a sale under the derecognition framework in Topic 860.

Through its ongoing process for monitoring capital markets for reports of significant financial reporting issues that might need to be addressed through standard setting, the Board recognized various practice issues on the application of the effective control guidance related to transfers of financial assets with an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred assets. In particular, stakeholders expressed concerns about the accounting for repurchase-to-maturity agreements. Current accounting guidance distinguishes between repurchase agreements that settle at the same time as the transferred financial asset matures and those that settle before the transferred financial asset matures. However, stakeholders noted that no such distinction is warranted because the transferor retains exposure to the credit risk related to the transferred financial assets and obtains important benefits of those assets in both types of transactions.

The Board noted that the marketplace for repurchase agreements has evolved significantly since 1996 when the Board first issued guidance in this area in FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Repurchase agreements have increasingly involved asset types beyond U.S. Treasury and government agency securities. Those types of assets may be less liquid and, consequently, may affect how the transactions operate and how investors consider the risks associated with them.

In addition, some stakeholders highlighted issues on the practical application of the criterion for assessing the transferor's effective control related to whether the financial assets to be repurchased under such agreements are considered "substantially the same" as the financial assets initially transferred. User outreach also confirmed that disclosures for repurchase agreements should be improved, especially regarding the effect of these transactions on the transferor's liquidity risk profile.

The main objective in developing this proposed Update is to:

1. Clearly identify repurchase agreements, securities lending transactions, and other transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset that should be accounted for as financing transactions
2. Improve the accounting and disclosures for those transactions.

## Who Would Be Affected by the Amendments in This Proposed Update?

The proposed amendments would affect all entities, both public and nonpublic, that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets.

## What Are the Main Provisions?

The proposed amendments would require that a transfer of an existing financial asset with an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset from the transferee with all of the following characteristics be considered to maintain the transferor's effective control over the transferred financial asset and, therefore, accounted for as a secured borrowing transaction:

1. The financial asset to be repurchased at settlement of the agreement is identical to or substantially the same as the financial asset transferred at inception or, when settlement of the forward agreement to repurchase or redeem the transferred assets is at the maturity of the transferred assets, the agreement is settled through an exchange of cash (or a net amount of cash).
2. The repurchase price is fixed or readily determinable.
3. The agreement to repurchase the transferred financial asset is entered into contemporaneously with, or in contemplation of, the initial transfer.

If the agreement fails any of the criteria listed above, it would not maintain the transferor's effective control over the transferred financial asset and the transferor would be required to assess the transfer under the remaining derecognition conditions in paragraph 860-10-40-5 to determine whether it should be accounted for as a secured borrowing or sale and a forward repurchase agreement.

The proposed amendments also would clarify the characteristics of financial assets that may be considered “substantially the same.” The characteristics that must be satisfied to consider financial assets to be substantially the same should result in identifying those transactions in which the transferor is economically in the equivalent position with the return of a substantially-the-same asset compared with the return of the identical asset.

In addition, the proposed amendments would 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. Instead, a transferor would account for the initial transfer separately from the related repurchase financing that requires the financial asset to be transferred back to the initial transferor with an agreement that both entitles and obligates the initial transferee to repurchase or redeem the transferred financial asset.

The proposed amendments would require two new disclosures for certain transfers of financial assets with agreements that both entitle and obligate a transferor to repurchase the transferred financial asset from the transferee. For those agreements accounted for as secured borrowings, the proposed amendments would require the transferor to disclose the gross amount of the total borrowing disaggregated on the basis of the class of financial asset pledged as collateral. For those agreements that result in derecognition of the transferred financial assets only because the assets to be repurchased are not considered to be substantially the same as the initially transferred assets, the proposed amendments would require a transferor to disclose the carrying amount of assets derecognized during the reporting period. To the extent that amount has changed significantly since the previous balance sheet date, the transferor also would disclose the reason(s) for the change.

## **How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?**

Under current U.S. GAAP, agreements that both entitle and obligate a transferor to repurchase a transferred financial asset from the transferee at the maturity of the transferred asset do not 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), such transfers of financial assets currently would be accounted for as a sale and forward repurchase agreement (generally, a derivative under Topic 815, Derivatives and Hedging). The proposed amendments would change the current accounting outcome by requiring secured borrowing accounting for such transactions. The Board concluded that these transactions should be considered to maintain the

transferor's effective control over the transferred financial assets during the term of the agreement.

In addition, under current U.S. GAAP, an initial transfer and related repurchase financing are required to be assessed to determine if they should be accounted for as a linked transaction, resulting in the combined transaction being accounted for by the initial transferor as a forward sale agreement and by the initial transferee as a forward purchase agreement, which is generally treated as a derivative. The proposed guidance would require a repurchase financing to be accounted for separately from the initial transfer on the basis of the proposed amendments to the guidance on effective control. Such transactions would no longer be accounted for on a linked basis with the initial transfer.

The Board decided that secured borrowing accounting for a repurchase agreement executed as a repurchase financing transaction best reflects its economics as a financing transaction and most faithfully represents the position of the parties to the transaction as a lender and borrower of funds.

## When Would the Amendments Be Effective?

The Board will establish the effective date of the requirements when it issues the final amendments. For transfers with forward repurchase agreements that settle at the maturity of the transferred financial asset and repurchase financings that involve such agreements, an entity would apply the proposed amendments by means of a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is effective. For all other transactions, the entity would apply the proposed amendments prospectively to transactions entered into or modified after the effective date.

## How Do the Proposed 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 asset (that is, the transfer is accounted for as a secured borrowing). If the transferor has transferred *substantially all* of the risks and rewards, it would derecognize the 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 asset. In contrast, the derecognition model in U.S. GAAP focuses on control, and three criteria must be satisfied for a transferor to conclude that it has surrendered control over the transferred financial asset: the asset must be legally isolated

from the transferor, the transferee must have the right to pledge or exchange the asset, and the transferor must not maintain effective control over the transferred financial asset. The effective control condition is particularly relevant to repurchase agreements.

The Board's decision to propose requiring secured borrowing accounting for transfers with agreements that both entitle and obligate a transferor to repurchase the transferred financial asset from a transferee at the maturity of the transferred asset generally would result in a converged outcome for this type of transaction because the risks and rewards would typically be considered to be retained by the transferor. The derecognition model in IFRS would be expected to result in secured borrowing accounting for a broader spectrum of repurchase agreements and other transactions with similar attributes because it primarily considers the risks and rewards retained by the transferor. Specifically, the requirements in IFRS generally would be expected to result in secured borrowing accounting for repurchase agreements and securities lending transactions that involve identical or substantially the same financial assets, and repurchase agreements to maturity. In addition, IFRS requirements generally are expected to result in secured borrowing accounting for (1) repurchase agreements and securities lending transactions that provide the transferee with a right to substitute assets that are similar and of equal fair value to the transferred financial assets at the repurchase date, (2) cash-settled forward repurchase agreements that involve the return of an amount of cash equal to the repurchase-date fair value of the transferred financial assets, and (3) a sale of a financial asset with a total return swap, as described by the guidance.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

### **Derecognition—Transactions That Involve a Transfer of a Financial Asset and an Agreement That both Entitles and Obligates the Transferor to Repurchase or Redeem the Transferred Asset**

## *Questions for All Respondents*

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

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

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

## **Substantially the Same**

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

**Question 5:** The Board decided that the characteristics that must be satisfied for a financial asset to be substantially the same in paragraph 860-10-40-24A should result in identifying those transactions in which a transferor is in economically the equivalent position with the return of a substantially-the-same asset compared with the return of the identical asset. Do the proposed amendments to the substantially-the-same characteristics help clarify how those characteristics

should be applied? If not, what additional clarifications are needed? Does the implementation guidance related to the substantially-the-same characteristics in paragraph 860-10-55-35 provide appropriate clarifications related to the characteristics and their application? Is the implementation guidance operable? If not, what additional guidance is needed?

## Disclosures

### *Questions for Users*

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

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

### *Questions for Preparers and Auditors*

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

## Transition and Effective Date

### *Questions for All Respondents*

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

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

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

# Amendments to the FASB Accounting Standards Codification®

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## Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
Master Glossary	Amended	Amend the term <i>repurchase agreement</i> .
860-10-05-21A through 05-21B Transfers and Servicing— Overall—Overview and Background	Superseded and moved	The proposed amendments would supersede the guidance on repurchase financings.
860-10-40-4A through 40-4B Transfers and Servicing— Overall— Derecognition	Superseded	The proposed amendments would supersede these paragraphs and move the content to new paragraphs 860-10-40-4D through 40-E.
860-10-40-4C	Added	The proposed amendments would reflect the change in accounting for repurchase agreements entered into with repurchase financings.
860-10-40-4D through 40-4E	Added	The proposed amendments result in this content being moved from paragraphs 860-10-40-4A through 40-B.

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
860-10-40-5	Amended	The proposed amendments would reflect the change in accounting for an agreement that both entitles and obligates the transferor to repurchase a transferred financial asset at the maturity of the transferred asset.
860-10-40-24	Amended	The proposed amendments would reflect the revisions to the characteristics of agreements qualifying as secured borrowings and the change in accounting for an agreement that both entitles and obligates the transferor to repurchase a transferred financial asset from the transferee at the maturity of the transferred asset.
860-10-40-24A	Added	The proposed amendments would reflect revisions to the substantially-the-same characteristics.
860-10-40-25	Amended	The proposed amendments would reflect revisions related to the application of the effective control guidance and the substantially-the-same characteristics.
860-10-40-25A	Added	The proposed amendments would reflect the accounting for transactions that do not meet the effective control characteristics.
860-10-40-42 through 40-47	Superseded	The proposed amendments would reflect the changes to the accounting for transfers and repurchase financings.

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
860-10-55-17A through 55-17B Transfers and Servicing— Overall— Implementation Guidance and Illustrations	Amended	The proposed amendments would reflect the changes to the accounting for transfers and repurchase financings.
860-10-55-17C	Superseded	The proposed amendments would reflect the changes to the accounting for transfers and repurchase financings.
860-10-55-34 through 55-35	Amended	The proposed amendments would address implementation guidance on the application of the substantially-the-same characteristics.
860-10-55-48 through 55-50	Superseded and moved	Implementation guidance on securities lending transactions would be amended and integrated into other paragraphs.

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
860-10-55-51	Amended	The proposed amendments would address the application of the derecognition conditions to repurchase agreements and other transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset.
860-10-55-51A	Added	The proposed amendments would provide examples to illustrate the application of the effective control guidance in paragraph 860-10-40-24.
860-10-55-52 through 55-53	Superseded and moved	Implementation guidance would be amended and integrated into other paragraphs.
860-10-55-54 through 55-55	Amended	The proposed amendments would reflect the change in accounting for an agreement that both entitles and obligates the transferor to repurchase a transferred financial asset from the transferee at the maturity of the transferred asset.
860-10-55-56A	Superseded	The proposed amendments would supersede the guidance on repurchase financings.
860-10-55-56B through 55-56C	Added	The proposed amendments would address securities lending transactions and would cross-reference to the requirement for the

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
		transferor to reclassify the asset in its statement of financial position, for example, as a loaned asset in accordance with paragraph 860-30-45-1.
860-10-55-58	Amended	The proposed amendments would change the references to paragraph 860-10-40-24A.
860-10-55-60	Amended	The proposed amendments would remove the reference to “substantially the agreed-upon terms” and indicate that assessment under all derecognition conditions is required.
860-10-55-68A	Amended	Paragraph reference would be amended.
860-10-65-5 Transfers and Servicing— Overall—Transition and Open Effective Date Information	Added	The proposed amendments would describe the transition provisions for the proposed amendments.
860-20-50-1 Transfers and Servicing—Sales of Financial Assets— Disclosure	Amended	The proposed amendments would add to the list of transactions within the scope of the Subtopic for which disclosure requirements exist.
860-20-50-7	Added	The proposed amendments would cross-reference to a proposed disclosure requirement in paragraph 860-30-50-4.

<b>Codification Paragraphs</b>	<b>Action</b>	<b>Description of Changes</b>
860-30-25-6 through 25-7 Transfers and Servicing—Secured Borrowing and Collateral—Recognition	Amended	The proposed amendments would reflect revisions related to the application of the effective control guidance.
860-30-50-3 Transfers and Servicing—Secured Borrowing and Collateral—Disclosure	Added	The proposed amendments would add new disclosure guidance for agreements in the scope of the effective control guidance.
320-10-25-18 Investments—Debt and Equity Securities—Overall—Recognition	Amended	The proposed amendments would address the effect of the decisions on whether transferring securities classified as held to maturity in a repurchase agreement that settles at the maturity of the transferred asset taints the held-to-maturity portfolio.

## Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–22. 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

3. Amend the first definition of the Master Glossary term *Repurchase Agreement*, with a link to transition paragraph 860-20-65-5, 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 a stipulated interest factor. Instead of cash, other ~~securities~~ financial assets 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.

## 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 201X-XX. 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 201X-XX. 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 paragraph 860-10-40-4, supersede paragraphs 860-10-40-4A through 40-4B, and add paragraphs 860-10-40-4C through 40-4E, with a link to transition paragraph 860-10-65-5, as follows:

## Derecognition

### > 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 the following paragraph 860-10-40-4D.

~~**860-10-40-4A** Paragraph superseded by Accounting Standards Update 201X-XX. 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 201X-XX. 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**. A transferor and transferee shall separately account for a transfer of a financial asset and a related repurchase financing. Paragraphs 860-10-55-17A through 55-17B 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]**

6. Amend paragraph 860-10-40-5, with a link to transition paragraph 860-10-65-5, as follows:

**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 40-27)
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).

7. Amend paragraph 860-10-40-24 and add paragraph 860-10-40-24A, with a link to transition paragraph 860-10-65-5, as follows:

### > > > **Effective Control through Both a Right and an Obligation**

**860-10-40-23** Although paragraph 860-10-40-5 sets forth criteria that must be met to achieve sale accounting, this guidance addresses criteria that must be met for a transfer to fail the condition in paragraph 860-10-40-5(c) through an agreement of the type described in paragraph 860-10-40-5(c)(1) and thus preclude sale accounting and result in accounting for the transfer as a secured borrowing.

**860-10-40-24** An agreement that at its inception involves a transfer of existing financial assets and both entitles and obligates the transferor to repurchase or redeem the 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~~ if all of the following conditions are met:

- a. Subparagraph superseded by Accounting Standards Update 201X-XX. 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. [Content moved to paragraphs 860-10-40-24A(f) and 860-10-55-35(e)] Participants in the mortgage-backed securities market have established parameters for what is considered acceptable delivery. [Content amended and moved to paragraph 860-10-55-35(e)] 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.

- aa. The financial assets to be transferred upon settlement of the agreement are any of the following:
  1. Financial assets that are the same as those initially transferred
  2. Financial assets that satisfy the characteristics in the following paragraph to be considered substantially the same as the assets initially transferred
  3. For an agreement with a settlement date that is at the maturity of the transferred financial asset, an exchange of cash equal to the redemption or settlement value of the initially transferred financial asset from the transferee to the transferor and the transfer of the fixed repurchase price from the transferor to the transferee (or the difference between those amounts).
- b. Subparagraph superseded by Accounting Standards Update No. 2011-03
- c. The agreement is to repurchase or redeem the financial assets ~~them~~ before maturity, at a fixed or determinable price.
- d. The agreement is entered into contemporaneously with, or in contemplation of, the initial transfer.

**860-10-40-24A** ~~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~~ is initially transferred and the financial asset that is to be repurchased or redeemed should provide the same risks and rights to the transferor so as to place the transferor in the equivalent economic position with the return of a substantially-the-same asset compared with the return of the identical asset. To qualify as substantially the same, the transferred financial

asset and the asset to be purchased at a future date shall need to have all of the following characteristics:

- ~~1-~~ a. 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-~~ b. Identical form and type ~~so as to provide the same risks and rights~~
- ~~3-~~ c. 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-~~ d. Identical contractual interest rate rates
- ~~5-~~ e. Similar assets as collateral
- ~~6-~~ f. The same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved. **[Content moved from paragraph 860-10-40-24]**

See paragraph 860-10-55-35 for implementation guidance related to these conditions.

8. Amend paragraph 860-10-40-25 and add paragraph 860-10-40-25A, with a link to transition paragraph 860-10-65-5, as follows:

**860-10-40-25** With respect to the condition in ~~(a)~~ in the preceding paragraph 860-10-40-24(aa) 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 or substantially the same as those ~~concurrently~~ initially 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.

**860-10-40-25A** An agreement that does not meet the criteria in paragraph 860-10-40-24 would not maintain the transferor's effective control over transferred financial assets as described in paragraph 860-10-40-5(c)(1). An entity shall assess those transfers under the remaining derecognition conditions in paragraph 860-10-40-5(a) through (b) to determine whether the transactions should be accounted for as secured borrowings or sales with forward repurchase commitments. In addition, the agreement shall be evaluated under paragraph 860-10-40-5(c) to the extent that it involves other features that warrant consideration under the effective control condition.

9. 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 201X-XX. ~~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 201X-XX. ~~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 201X-XX. ~~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 201X-XX.~~ 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 201X-XX.~~ 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 201X-XX.~~ Paragraphs 860-10-55-17A through 55-17C provide implementation guidance related to repurchase financings.

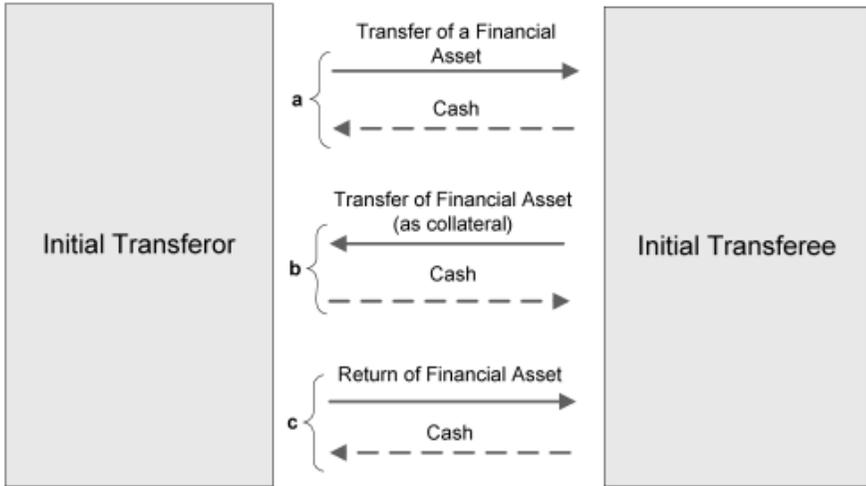
10. Amend paragraphs 860-10-55-17A through 55-17B and supersede paragraph 860-10-55-17C, with a link to transition paragraph 860-10-65-5, as follows:

## 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 the transaction comprising an initial transfer and a repurchase financing and to prevent an inappropriate analogy to other financing transactions that are outside the scope of the guidance ~~beginning in paragraph 860-10-40-42~~860-10-40-4C.



**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 860-10-40-42~~860-10-40-4C:

- a. The initial transferor transfers a financial asset to the initial transferee in return for cash.
- b. The initial transferee enters into a 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 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** Paragraph superseded by Accounting Standards Update 201X-XX. ~~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-~~

~~40-42. 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.~~

11. Amend paragraphs 860-10-55-34 through 55-35 and its related heading, 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 transferred financial assets ~~before 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.

### > > > Whether ~~Securities~~ Financial Assets Exchanged Are Substantially the Same

**860-10-55-35** This guidance addresses criteria that must be met for a transfer to fail the condition in paragraph 860-10-40-5(c) through an agreement of the type described in paragraph 860-10-40-5(c)(1), precluding sale accounting and resulting, instead, in secured-borrowing accounting. The following includes implementation guidance and are examples of whether ~~securities~~ financial assets exchanged are substantially the same as discussed in paragraph ~~860-10-40-24~~ 860-10-40-24A:

- a. The same primary obligor or government guarantor (see paragraph ~~860-10-40-24(a)(1)~~ 860-10-40-24A(a)). The exchange of pools of single-family loans would not meet this criterion because the mortgages comprising the pool do not have the same primary ~~obligor~~, obligor and, therefore, would ~~therefore~~ not be considered substantially the same. In the case of debt securities that are guaranteed by a sovereign

- government, central bank, government-sponsored entity, or agency thereof, such as U.S. government agency guaranteed mortgage-backed securities, whether this criterion is met would be on the basis of whether the securities had the same named guarantor (for example, **Government National Mortgage Association [GNMA]** or **Federal National Mortgage Association [FNMA]**) and the guarantee(s) had the same terms.
- b. Identical form and type (see paragraph ~~860-10-40-24(a)(2)~~ 860-10-40-24A(b)). The following exchanges would not meet this criterion:
1. GNMA I securities for GNMA II securities
  2. Loans to foreign debtors that are otherwise the same except for different U.S. foreign tax credit benefits (because such differences in the tax receipts associated with the loans result in instruments that vary in form and type)
  3. Commercial paper for redeemable preferred stock.
- c. The same maturity (or in the case of mortgage-backed pass-through and pay-through securities, similar remaining weighted-average maturities that result in approximately the same market yield) (see paragraph ~~860-10-40-24(a)(3)~~ 860-10-40-24A(c)). This would require consideration of the prepayment characteristics of the security sold as compared with the anticipated prepayment characteristics of the security to be repurchased. Historical data and market information on the range of prepayment speeds and market yields for securities with similar characteristics may be considered in assessing whether the security to be repurchased would result in approximately the same market yield as the security initially transferred. For example, the exchange of a fast-pay GNMA certificate (that is, a certificate with underlying mortgage loans that have a high prepayment record) for a slow-pay GNMA certificate would not meet this criterion because differences in the expected remaining lives of the certificates result in different market yields.
- cc. Identical contractual interest rate (see paragraph 860-10-40-24A(d)). In the case of a mortgage-backed security, the contractual interest rate refers to the coupon rate of the security that is initially transferred and the security that will be returned (rather than the loans serving as collateral in a securitized pool).
- d. Similar assets as ~~{remove glossary link}~~collateral~~{remove glossary link}~~ (see paragraph ~~860-10-40-24(a)(5)~~ 860-10-40-24A(e)). This characteristic involves considering the similarity of the collateral underlying the mortgage-backed securities that are sold and repurchased. Mortgage-backed pass-through and pay-through securities must be collateralized by a similar pool of mortgages, such as single-family residential mortgages, to meet this characteristic.
- e. The same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved (see paragraph 860-10-40-24A(f)). Participants In assessing this

condition, participants in the mortgage-backed securities market have established parameters for what is considered acceptable delivery. **[Content amended as shown and moved from paragraph 860-10-40-24(a)(6)]**

12. Supersede paragraphs 860-10-55-48 through 55-50 and their related heading, 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 201X-XX. ~~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 860-10-55-56B]**~~

**860-10-55-49** Paragraph superseded by Accounting Standards Update 201X-XX. ~~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 860-10-55-56B]**~~

**860-10-55-50** Paragraph superseded by Accounting Standards Update 201X-XX. ~~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)]**~~

13. Amend paragraph 860-10-55-51 and its related heading, add paragraph 860-10-55-51A, and supersede paragraphs 860-10-55-52 through 55-53, with a link to transition paragraph 860-10-65-5, as follows:

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

**860-10-55-51** Paragraphs 860-10-05-16 through 05-18 provide background on securities lending transactions. Paragraphs 860-10-05-19 through 05-21 provide background on repurchase agreements. Repurchase agreements and securities

lending transactions are required to be evaluated under each of the following conditions for derecognition in 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. Paragraph 860-10-40-5(a) and paragraph 860-10-40-8 require that transferred financial assets must 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 securities to an independent third-party custodian, or to a transferee, under conditions that preclude the transferee from selling or replying 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 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 as described in paragraph 860-10-40-5(c)(1) that meets the criteria described 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 meet those criteria need not be assessed under the remaining conditions for derecognition. The following paragraph 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 should 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, then the agreement is accounted for as a secured borrowing. If effective control is not maintained, then the transaction would be assessed under the other derecognition conditions in paragraph 860-10-40-5 to determine if the transferred asset should be derecognized. The following examples illustrate the application of the effective control conditions in paragraph 860-10-40-24:

- a. Repurchase agreements and securities lending—assets that are identical. If an existing financial asset is sold under a contemporaneous agreement with the same counterparty to repurchase or redeem it before its maturity at a fixed price or at the sale price plus a lender's return or if it is loaned under a forward repurchase agreement to return the identical asset to the transferor before its maturity, the agreement maintains the transferor's effective control over the transferred financial asset.
- b. Repurchase agreements and securities lending—assets that are substantially the same. If a financial asset is sold under a contemporaneous agreement with the same counterparty to repurchase an asset that meets the characteristics of a substantially-the-same asset in paragraph 860-10-40-24A at a fixed price or at the sale price plus a lender's return or if a financial asset is borrowed or loaned under a forward repurchase agreement to return an asset that is substantially the same to the transferor, the agreement maintains the transferor's effective control over the transferred financial asset. Fixed-coupon For example, 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 the securities to be repurchased are substantially the same (see ~~paragraph paragraphs~~ paragraphs 860-10-40-24(a) and 860-10-40-24A) securities as those ~~concurrently initially~~ 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~~ have been met. [Content amended as shown and moved from paragraph 860-10-55-53]
- c. Repurchase agreements—repurchase-to-maturity agreements. If a financial asset is sold under a contemporaneous agreement with the same counterparty to repurchase it at a fixed price, and settlement of

the forward repurchase agreement is at the maturity of the transferred financial asset resulting in an exchange of cash equal to the redemption or settlement value of the initially transferred financial asset and the fixed repurchase price (or the difference between those amounts), the agreement maintains the transferor's effective control over the transferred financial asset.

- d. Fair value forward repurchase agreements. If a financial asset is sold under a contemporaneous agreement with the same counterparty to repurchase or redeem it at a price that is equal to the fair value of the financial asset at the time of repurchase or redemption, the agreement does not maintain the transferor's effective control over the transferred financial assets.
- e. Cash-settled repurchase agreements. If a financial asset is sold 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 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.

**860-10-55-52** Paragraph superseded by Accounting Standards Update 201X-XX. ~~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 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 to paragraph 860-10-55-51]~~

**860-10-55-53** Paragraph superseded by Accounting Standards Update 201X-XX. ~~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 860-10-55-51A]~~

14. Amend paragraphs 860-10-55-54 through 55-55, supersede paragraph 860-10-55-56A, and add paragraphs 860-10-55-56B through 55-56C, 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 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.~~

**860-10-55-56** 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 201X-XX. ~~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** 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]**

**860-10-55-56C** 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, for example, as financial assets pledged to creditors as collateral, in accordance with paragraph 860-30-45-1.

15. Amend paragraphs 860-10-55-58 and 860-10-55-60, with a link to transition paragraph 860-10-65-5, as follows:

**> > Dollar Rolls**

**860-10-55-58** Whether paragraph 860-10-40-5(c) precludes sale accounting for a dollar-roll transaction depends on the facts and circumstances. Paragraph 860-10-40-24 states the conditions under which 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). The condition in paragraph 860-10-40-24(a) requires that the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred. Paragraph ~~860-10-40-24(a)~~ 860-10-40-24A describes six characteristics that must all exist for a transfer to meet the substantially-the-same requirement. Paragraph ~~860-10-40-24(a)(6)~~ 860-10-40-24A(f) requires (as one of those six characteristics) that the financial asset that was transferred and the financial asset that is to be repurchased or redeemed have the same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved.

**860-10-55-59** For transfers of existing securities under a dollar-roll repurchase agreement, the transferee must be committed to return substantially-the-same securities to the transferor, which would indicate that the transferor has maintained effective control. In a transfer of existing securities under a dollar-roll repurchase agreement, if the transferee is committed to return substantially-the-same securities to the transferor but that transferee's securities at the time of the transfer were to-be-announced securities, the transferor would not be precluded from accounting for the transfer as a secured borrowing. The transferor is only required to obtain a commitment from the transferee to return substantially-the-same securities and is not required to determine that the transferee holds the securities that it has committed to return. Therefore, the financial asset to be returned may be a to-be-announced asset at the time of the transfer because the transferor would have no way of knowing whether the transferee held the security to be returned.

**860-10-55-60** As illustrated by the following, whether a ~~GNMA roll~~ **Government National Mortgage Association Rolls** ~~is~~ are accounted for as a secured borrowing ~~borrowings~~ or a sale ~~sales~~ affects the evaluation of the forward contract embedded in the securities subject to the agreement:

- a. Types 1–3 of dollar rolls would qualify for secured borrowing treatment if ~~the redemption of securities on substantially the same terms is assured~~ the securities to be returned are the same or substantially the same as the securities initially transferred and the other effective control criteria

are satisfied (see ~~paragraph~~ paragraphs 860-10-40-24 through 40-24A). In that circumstance, the forward contracts embedded in the Types 1–3 securities are outside the scope of Topic 815 because of the scope exception provided in paragraph 815-10-15-63 for derivative instruments that serve as impediments to sale accounting.

- b. Type 2 and 3 securities that involve repurchase of other than substantially-the-same securities are considered sales of securities ~~and forward contracts with recognition of a forward contract~~ if all of the derecognition conditions in paragraph 860-10-40-5 are satisfied. The forward contract would need to be evaluated under Subtopic 815-10 because it has terms that would generally meet the definition of a derivative instrument. If the dollar-roll repurchase agreement is accounted for as a sale under this Subtopic, Subtopic 815-10 provides guidance on the subsequent accounting for the forward contract.

16. Amend paragraph 860-10-55-68A, as follows:

**> > > Transferor Option to Repurchase Individual Financial Assets**

**860-10-55-68A** Such a call option on the remaining portion of an entire financial asset precludes sale accounting for the entire financial asset. Paragraph 860-10-40-5 applies to an entire financial asset, a group of entire financial assets, or a participating interest. Paragraph ~~860-10-40-4A~~ 860-10-40-4D states that, 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. That paragraph states also that 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.

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

**> Transition Related to Accounting Standards Update No. 201X-XX, Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings**

**860-10-65-5** The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*:

- a. The pending content that links to this paragraph shall be effective for the first interim or annual period beginning on or after [date to be inserted after exposure].
- b. The pending content that links to this paragraph shall be applied to transfers with forward repurchase agreements that settle at the maturity of the transferred financial asset and repurchase financings that involve

- such agreements that are open at the effective date by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period for which the guidance is effective.
- c. For transactions other than those requiring the transition method in item (b), the pending content that links to this paragraph shall be applied prospectively to transactions that are entered into or modified on or after the effective date.
  - d. Earlier application is not permitted.
  - e. An entity shall provide the following disclosures consistent with Section 250-10-50 in the period of adoption:
    - 1. The nature of the change in accounting principle
    - 2. The method of applying the change
    - 3. The cumulative effect of the change on retained earnings in the statement of financial position as of the beginning of the first reporting period for which the guidance is effective
    - 4. The effect of the change on any line item in the statement of financial position as of the beginning of the first reporting period for which the guidance is effective.
  - f. An entity that issues interim financial statements shall provide the disclosures in item (e) in the financial statements of both the interim period of the change and the annual period of the change.

## Amendments to Subtopic 860-20

18. Amend paragraph 860-20-50-1, with a link to transition paragraph 860-10-65-5, as follows:

### **Transfers and Servicing—Sales of Financial Assets**

#### **Disclosure**

##### **> All Entities within Scope of Subtopic**

**860-20-50-1** This Section is organized as follows:

- a. Disclosures for each income statement presented
- b. Disclosures for each statement of financial position presented
- c. Sales of loans and trade receivables.
- d. Certain transfers of financial assets with agreements that both entitle and obligate a transferor to repurchase or redeem the transferred assets.

For overall guidance on Topic 860's disclosures, see Section 860-10-50.

19. Add paragraph 860-20-50-7 and its related heading, with a link to transition paragraph 860-10-65-5, as follows:

**> Certain Transfers of Financial Assets with Agreements That both Entitle and Obligate a Transferor to Repurchase or Redeem the Transferred Assets**

**860-20-50-7** Paragraph 860-30-50-3(b) sets forth a disclosure requirement for certain transfers of financial assets with agreements that both entitle and obligate the transferor to repurchase or redeem those assets that are accounted for as sales with forward repurchase agreements.

## Amendments to Subtopic 860-30

20. Amend paragraphs 860-30-25-6 through 25-7, 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 860-10-55-56B 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.

**860-30-25-7** Many securities lending transactions are accompanied by an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets ~~before their maturity~~. Paragraph 860-10-40-24 states that 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 conditions in paragraph 860-10-40-24 are met. Those transactions shall be accounted for as secured borrowings, in which either cash or securities that the holder is permitted by contract or custom to sell or repledge received as collateral are considered the amount borrowed, the securities loaned are considered pledged as collateral against the cash borrowed and reclassified as set forth in paragraph 860-30-25-5(a), and any rebate paid to the transferee of securities is interest on the cash the transferor is considered to have borrowed.

21. Add paragraph 860-30-50-3, with a link to transition paragraph 860-10-65-5, as follows:

## Disclosure

**860-30-50-3** For transfers of financial assets with agreements that both entitle and obligate a transferor to repurchase or redeem the transferred assets as described in paragraph 860-10-40-5(c)(1) and paragraph 860-10-40-24, the transferor shall disclose the following at each balance sheet date:

- a. For those transfers with agreements that maintain the transferor's effective control and, therefore, are accounted for as secured borrowings, the gross amount of the total borrowing, disaggregated by class of financial asset pledged as collateral. A transferor shall determine appropriate classes in accordance with paragraph 820-10-50-2B. Total borrowings under those agreements shall reconcile to the amount reported in accordance with paragraph 210-20-50-3(a), before any adjustments for offsetting.
- b. For those transfers with agreements that result in derecognition of the transferred financial assets only because the assets to be repurchased do not meet the substantially-the-same requirements of paragraph 860-10-40-24A, the carrying amount of assets derecognized during the reporting period. To the extent that the amount has changed significantly since the previous balance sheet date, the transferor also shall disclose the reason(s) for the change.

## Amendments to Subtopic 320-10

22. Amend paragraph 320-10-25-18, 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:

- a. Although its asset-liability management may encompass consideration of the maturity and repricing characteristics of all investments in debt securities, an entity may decide that it can accomplish the necessary

adjustments under its asset-liability management without having all of its debt securities available for disposition. In that case, the entity may choose to designate certain debt securities as unavailable to be sold to accomplish those ongoing adjustments deemed necessary under its asset-liability management, thereby enabling those debt securities to be accounted for at amortized cost on the basis of a positive intent and ability to hold them to maturity.

- b. The sale of one or more held-to-maturity securities if an entity chooses to downsize to comply with a significant increase in the industry's capital requirements would not call into question the classification of other held-to-maturity securities.
- c. In some circumstances it may not be possible to hold a security to its original stated maturity, such as when the security is called by the issuer before maturity. The issuer's exercise of the call option effectively accelerates the security's maturity and shall not be viewed as inconsistent with classification in the held-to-maturity category.
- d. A puttable debt security shall be classified as held-to-maturity only if the entity has the positive intent and ability to hold it to maturity.
- 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.

*The amendments in this proposed Update were approved for publication by five members of the Financial Accounting Standards Board. Ms. Seidman and Mr. Smith voted against publication of the amendments. Their alternative views are set out at the end of the Basis for Conclusions.*

*Members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*  
Daryl E. Buck  
Russell G. Golden  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information, Basis for Conclusions, and Alternative Views

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 decided that the primary objective of the proposed guidance is to differentiate between transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates a transferor to repurchase or redeem the transferred asset that should be accounted for as secured borrowings and those that should be accounted for as sales of the transferred financial assets. In addition, the Board is seeking to ensure that investors obtain useful information about these transactions.

## Background Information

BC3. 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:

- 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.

BC4. Historically, for typical repurchase agreements and securities lending transactions, the Board understood that the conditions in items (a) and (b) above typically would be met, indicating that the transactions qualify for sale accounting based on item (c) above. During the term of these typical agreements in which the transferred financial assets generally consist of securities that are readily obtainable in the market (for example, U.S. Treasury securities), the transferee

has the right to pledge or exchange the transferred financial assets, and the transferred financial assets are isolated from the transferor, even in bankruptcy. Therefore, the analysis typically focuses on whether the transferor maintains effective control over the transferred financial assets, that is, item (c) outlined above.

BC5. Topic 860 currently provides guidance to evaluate item (c) outlined above. Specifically, the accounting guidance explains that an agreement that entitles and obligates the transferor to repurchase or redeem transferred assets from the transferee maintains effective control over the 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 accounting guidance is based on the concept 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 asset to be repurchased is the same or substantially the same as the asset transferred, then effective control is considered to be maintained. Effective control is maintained because an agreement that involves both a contractual right and a contractual obligation to repurchase a financial asset before its maturity effectively binds the transferred financial asset (or a substantially-the-same financial asset) back to the transferor. Accordingly, current accounting 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 assets (commonly referred to as a repurchase-to-maturity agreement).

BC7. Current accounting guidance distinguishes a repurchase agreement to maturity, 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 current guidance, control of the transferred financial asset under a repurchase-to-maturity agreement is considered to have been effectively surrendered.

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

loaned securities and a forward repurchase commitment during the term of the agreement. Similarly, the transferee recognizes a purchase of the securities received for the cash, or if securities are exchanged, it recognizes the securities received and a forward resale commitment. The forward repurchase and resale commitments should be evaluated under Topic 815 to determine if they are required to be accounted for as derivatives. If the criteria for sale accounting are not met, the transfer of financial assets is accounted for as a secured borrowing. 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 report 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.

BC9. In 2011, in response to concerns raised by various stakeholders in the wake of the global economic crisis, the FASB reconsidered one condition for maintaining a transferor's effective control over transferred financial assets subject to repurchase agreements. Specifically, concerns were highlighted about a criterion for secured borrowing that requires the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed 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 eliminates that criterion for assessing effective control and is effective for interim or annual periods beginning on or after December 15, 2011.

BC10. 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, linking those needs to the credit crisis and the need to better understand the nature of these transactions, the use of funding obtained through these 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 agreements and questions about whether amendments to the current accounting guidance for those agreements were warranted.

BC11. Consistent with the FASB's process of reassessing existing accounting standards when stakeholders raise concerns or practice issues arise, the Board commenced steps to determine whether incremental accounting and disclosure issues on repurchase agreements existed. Through outreach, the Board learned that users of financial statements broadly view repurchase agreements that involve the same or similar securities as financing transactions. While the current accounting guidance distinguishes between repurchases before maturity and repurchases at maturity, users make no such distinction and cite the transferor's retention of both the credit risk of the transferred financial assets and other important benefits of those assets in types of transactions. User outreach also confirmed that disclosures for repurchase agreements should be improved, especially the effect of such transactions on the transferor's liquidity risk profile.

BC12. In addition, 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 Statement 125. For example, while repurchase agreements historically had involved mostly U.S. Treasury and U.S. government agency securities, the range of debt instruments included 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 consequently affect how those transactions operate and how investors consider the risks associated with them. As a result of this research, the Board decided that there was a need to revisit the accounting guidance for repurchase agreements.

## Basis for Conclusions

BC13. The Board reconsidered the approach for determining whether transactions that involve a transfer of a financial asset and a contemporaneous agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset should be accounted for as either secured borrowings or sales of the transferred assets with forward repurchase agreements. The Board deliberated a spectrum of alternative approaches, weighing both the objectives of the project and the goal of issuing new guidance expeditiously to address the concerns raised by stakeholders.

BC14. The Board considered whether a fundamentally different approach was needed for accounting for those agreements. Specifically, the Board considered whether to introduce a requirement for a transferor to explicitly consider whether its continuing involvement with the transferred financial assets provides it with substantial economic risks and rewards related to the transferred financial assets during the term of the agreement. Those risks and rewards would be the result of

the transferor receiving cash flows or other benefits that arise from the transferred financial assets and incurring an obligation to provide additional cash flows or other assets to the transferee during the term of the agreement.

BC15. The Board viewed that approach as a fundamentally different approach than the current model in Topic 860, which is based on an assessment of control and effective control over transferred financial assets. Under the current model, the transferor's retention of substantially all of the risks and rewards of transferred financial assets through a separate derivative contract does not refute the conclusion that effective control is relinquished, except when the derivative both entitles and obligates the transferee to repurchase the transferred financial asset or a substantially-the-same financial asset before maturity. The Board considered whether applying a risks-and-rewards approach for transactions described in paragraphs 860-10-40-5(c)(1) and 860-10-40-24 would address the issues identified in current practice. However, ultimately, the Board decided not to adopt such an approach because the approach could have unintended consequences for other types of transactions. Additionally, some Board members were concerned that under this type of approach, the accounting guidance would differentiate between forward purchase contracts in which an asset is initially transferred from a transferor's balance sheet (accounted for as a secured borrowing) and those in which an asset is not initially transferred from a transferor's balance sheet (accounted for solely as a derivative).

BC16. The Board also considered an alternative that would have resulted in no amendments of the existing effective control guidance for transfers with agreements that both entitle and obligate the transferor to repurchase transferred financial assets in paragraphs 860-10-40-5(c)(1) and 860-10-40-24, but would have explicitly defined the attributes of a *repurchase-to-maturity agreement* that would be considered not to maintain the transferor's effective control over transferred financial assets. Specifically, the Board considered an approach that would clarify that for effective control to be surrendered in a repurchase-to-maturity agreement, the transaction must have the following attributes:

- a. The maturity of the repurchase agreement matches the maturity of the transferred financial asset.
- b. The arrangement is not terminable on demand, meaning that the arrangement cannot be terminated early and the transferor cannot otherwise reclaim the transferred financial assets before maturity of the repurchase agreement.
- c. The forward repurchase agreement is net cash settled at the maturity of the arrangement. That is, at the conclusion of the transaction, the transferor pays the difference between the par value of the securities at their maturity date and the fixed repurchase price under the agreement rather than a gross exchange of the financial assets and cash.

BC17. The Board observed that this approach would remain most faithful to the existing concepts of control and effective control in Topic 860. That is, currently, secured borrowing accounting is required only when effective control is maintained by the transferor, which occurs when the financial asset required to be repurchased is the same or substantially the same as the transferred financial asset and the contract requires repurchase before maturity. However, the Board decided not to propose this approach because it would still result 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 would effectively be 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. However, ultimately, the Board decided that this outcome would not resolve the concerns that led to undertaking this project.

BC18. After considering various alternatives, the Board decided to retain the current approach in Topic 860 based on control but also to amend the effective control guidance to require secured borrowing accounting for agreements of the type described in paragraph 860-10-40-5(c)(1) that meet the criteria in paragraph 860-10-40-24, regardless of whether they mature before or at the same time as the transferred financial assets that are the subject of the agreement. The Board considered the characteristics of straightforward repurchase agreements that involve identical securities that suggest effective control is retained. The Board determined that those characteristics are largely captured by the existing conditions for assessing whether effective control is maintained. The Board decided that all transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset with the following specific characteristics would be accounted for as secured borrowing transactions:

- a. The agreement at its inception involves a transfer of an existing financial asset.
- b. The agreement involves both a right and an obligation to repurchase the financial asset.
- c. The initial transfer and forward repurchase agreement involve the same counterparty.
- d. The agreement to repurchase the transferred financial asset is entered into contemporaneously with, or in contemplation of, the initial transfer.
- e. The repurchase price is fixed or readily determinable.
- f. The financial asset to be repurchased at settlement of the agreement is identical to or substantially the same as the financial asset transferred at inception, or, in the case of an agreement that settles at the maturity of the transferred asset, the agreement is settled through an exchange of cash (or a net amount of cash).

BC19. The Board decided that agreements that do not involve the return of the initially transferred asset because the settlement of the agreement is at the maturity of the transferred asset also would be subject to secured borrowing accounting even though characteristic (b) indicates 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.

BC20. Although that is not a full risks-and-rewards approach, 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 agreements, the transferor is exposed to the default risk of the issuer of the transferred securities throughout the term of the agreement as well as market risks that arise from the obligation to repurchase the 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, these Board members noted that the financial assets should continue to be reflected on the transferor's balance sheet. Similarly, if the transferor retains the return on the financial assets (for example, interest income) or upside potential of the financial assets, these Board members decided that the financial asset should not be derecognized.

BC21. In addition, regarding transfers with agreements to repurchase transferred financial assets that settle at the maturity of the transferred assets currently accounted for as sales with forward repurchase commitments, the Board observed that during the term of the agreement the transferor would recognize the coupon payments on the transferred financial assets and 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. Board members were 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 because only the changes in market value of the derivative would be reflected in the financial statements, rather than the entity's borrowing obligations. The Board was concerned that this could potentially obscure the entity's need for liquidity to fulfill the obligations arising from those transactions.

BC22. The Board acknowledged that the approach adopted is not 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. However, the Board decided that this approach has practical advantages and avoids

unintended consequences that may arise with one or more of the other approaches considered, and expeditiously addresses the issues raised by stakeholders.

## Isolation

BC23. The Board decided that an agreement that involves a transfer of an existing financial asset and both entitles and obligates the transferor to repurchase or redeem the transferred financial asset in which the transferor does not maintain effective control would 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) would be determinative for many repurchase agreements (and other transactions that involve a transfer of a financial asset and a contemporaneous agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset) that do not maintain the transferor's effective control.

BC24. The Board discussed the practical application of the condition in paragraph 860-10-40-5(a) that the transferred financial assets be isolated from the transferor. The Board understands that in practice true sale opinions are not obtained for the majority of typical repurchase agreements for a variety of reasons, including the nature of the financial assets transferred, the existence of safe harbors in the U.S. Bankruptcy Code, and the presumption that a true sale opinion could be obtained if sought. Additionally, the Board understands that repurchase agreements are structured to be isolated through transfer of legal title and the transferee's ability to rehypothecate collateral. However, the Board observed that legal title is relevant but not determinative in all cases, particularly for financial assets.

BC25. 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. Therefore, the Board observed that it would appear that obtaining a true sale opinion would be appropriate in circumstances in which the financial assets transferred fall outside the security types that are subject to the safe harbors provided in the U.S. Bankruptcy Code and when different jurisdictions are involved. 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 assets would be beyond the reach for the transferor or any of its consolidated affiliates included in the financial statements being presented.

BC26. The Board was made aware that in some cases entities may be relying on paragraphs 203 and 204 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.

BC27. The Board noted that the assertions in 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 Statements 125 and 140 were written, the comments in the basis for conclusions were not intended to apply to all transactions.

## Substantially the Same

BC28. Paragraph 860-10-40-24 states that one condition for assessing effective control for repurchase agreements and other transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset is that 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:

- a. The same primary obligor (except for debt guaranteed by a sovereign government, central bank, or government-sponsored enterprise or agency thereof, in which circumstance the guarantor and the terms of the guarantee must be the same)
- b. Identical form and type so as to provide the same risks and rights
- c. 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)
- d. Identical contractual interest rates
- e. Similar assets as collateral
- f. The same aggregate unpaid principal amount or principal amounts within accepted good delivery standards for the type of security involved.

BC29. Because judgment is required in applying the substantially-the-same characteristics, the Board understands that there is diversity in applying the guidance in practice. The Board also learned through outreach that the removal of the criterion related to the transferor's ability to repurchase or redeem on substantially the agreed-upon terms by Update 2011-03 has resulted in 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. While not the only type of transaction that is subject to this guidance, mortgage dollar-roll transactions that involve the transfer of an existing financial asset in exchange for a similar financial asset represent a major transaction category that is assessed under the substantially-the-same guidance. In dollar rolls that involve the return of securities that are not identified at the inception of the transaction, or to-be-announced securities, the transferor is required to assess whether the security to be repurchased would be substantially the same as the security that was initially transferred. The Board understands that, in particular, parties to dollar-roll transactions may interpret the substantially-the-same criteria differently, resulting in asymmetrical accounting between the transferor and the transferee (that is, the transferor reflecting secured borrowing accounting and the transferee reflecting sale accounting). These practice issues are less significant with trades done in the “specified pool” market because those trades involve pools that are identified at the trade date, and the transferor can simply compare the terms of the assets that are initially transferred with those that are or will be repurchased. Also, these practice issues may be somewhat mitigated for “stipulated to-be-announced trading” in which transactions can be executed using any number of stipulations, including (but not limited to) maturity date, production or issue year, weighted-average maturity, weighted-average loan age, FICO score, geographic distribution, or weighted-loan balance.

BC31. To address the diversity in interpretation of the characteristics of the substantially-the-same criterion, the Board considered eliminating the term and instead requiring that transfers be accounted for as secured borrowings only if, among other conditions, the repurchased assets are identical to the assets initially transferred. Eliminating the requirement for secured borrowing accounting if the repurchased assets are substantially the same as the assets initially transferred would have removed the assessment of substantially the same and resolved the related diversity in practice. However, the Board decided that transfers and repurchases of substantially-the-same financial assets should continue to be eligible for secured borrowing accounting. The Board concluded that the accounting should reflect the economic positions of the parties for transfers in which the repurchased assets are so similar that the transferor is indifferent between repurchasing the initially transferred assets and repurchasing very similar ones.

BC32. Based on discussions with market participants, the Board believes that for to-be-announced dollar rolls that involve the transfer of an existing financial asset in exchange for return of a substantially-the-same financial asset that is not pre-identified at the inception of the transaction, the greatest potential for differing interpretation relates to the criterion in paragraph 860-10-40-24A(c) about the transferred financial asset and the asset to be repurchased having “similar remaining weighted-average maturities that result in approximately the same market yield.” To assess whether the securities to be repurchased will meet this condition, a transferor must apply judgment to estimate the level of unscheduled principal payments to be received. Therefore, the Board decided to provide

implementation guidance 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.

BC33. The Board also decided that the substantially-the-same characteristics should be clarified to convey the concept that the transferor should be in the same economic position after receiving an asset that is substantially the same as the asset initially transferred as compared with receiving the identical asset. In addition, the Board observed that *substantially the same* should be interpreted as a narrow construct. The Board understands that market participants employ specific “good delivery” standards for the mortgage-backed securities market found in *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities*, established by the Securities Industry and Financial Market Association (SIFMA), in executing these transactions. The Board observed that these standards serve a purpose that is different from the objective of this accounting guidance. Therefore, securities that may satisfy good delivery standards may not necessarily meet the substantially-the-same characteristics, which may represent a narrower subset of financial assets. With this narrow interpretation in mind, the Board affirmed that secured borrowing accounting would continue to be required for transfers that involve the repurchase of substantially the same financial assets, subject to the other effective control criteria in paragraph 860-10-40-24 being met.

BC34. The Board decided that the reference in paragraph 860-10-40-24(a)(6) to the good delivery standards issued by the Bond Market Association (which is now SIFMA) is not necessary and should be deleted as a “housekeeping” matter, given that these standards may change over time.

## Economically Similar Transactions

BC35. As discussed in paragraph BC20, in reaching the decision to require secured borrowing accounting for a transfer with a forward agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial asset that settles at the maturity of the transferred asset, some Board members considered the economic position of the transferor before and after the execution of the forward repurchase agreement as a relevant factor. The decision to require secured borrowing accounting for a cash-settled or net-cash-settled forward repurchase agreement that settles at the maturity of the transferred financial asset prompted the Board to consider whether the exception should be expanded further to economically similar transactions.

BC36. The Board considered requiring cash-settled forward repurchase agreements (before maturity) and repurchase agreements settled in readily-convertible-to-cash financial assets equalling the repurchase-date fair value of the initially transferred assets to be accounted for as secured borrowings. However, the Board decided not to expand the requirement for secured

borrowing accounting to forward repurchase agreements that settle in cash before the maturity of the transferred financial asset or by delivery of readily-convertible-to-cash financial assets of equivalent repurchase-date fair value. Instead, those transactions would continue to be assessed under all of the derecognition conditions in paragraph 860-10-40-5.

BC37. Some Board members were concerned that economically similar transactions may receive different accounting treatment. For example, a repurchase agreement before maturity may be viewed as equivalent to a sale and total return swap. If all of the effective control conditions are satisfied, a repurchase agreement would be accounted for as a secured borrowing. However, the Board understands that a transfer of financial assets and a total return swap conducted in jurisdictions outside the United States may be able to meet the isolation condition in Topic 860, potentially resulting in sale accounting for those transactions, while the same or very similar transactions conducted in the United States would be accounted for as secured borrowings. The Board was concerned that these economically similar transactions would be analyzed differently, potentially resulting in different accounting outcomes.

BC38. Some Board members were concerned that fully resolving these issues would require the exploration of a risks-and-rewards-based principle, which would be a substantial undertaking because it would be a major shift from the current control and effective control model. In the interest of expediting the issuance of new guidance, the Board decided that it could not adequately explore a risks-and-rewards-based principle while avoiding potential unintended consequences within the desired time frame. Some thought it best to require secured borrowing accounting for a forward repurchase agreement that settles at the maturity of the transferred financial asset within the existing control and effective control model, meaning that if the transferred financial asset at the time of repurchase is in the form of cash, it is equivalent to repurchasing the same asset. This would allow the Board to address the accounting for transfers with forward repurchase agreements that settle at the maturity of the transferred asset in a timely manner while avoiding any unintended consequences.

BC39. However, in acknowledgment of these issues, the Board directed the staff to research a potential project after the completion of the current project to broadly assess the overall derecognition model in Topic 860. On the basis of this research, the Board will consider at a later date whether to add a new project to its agenda to broadly assess the overall derecognition model.

## Repurchase Financings

BC40. The Board considered the effect on the current guidance for repurchase financings of its decision to require secured borrowing accounting for repurchase agreements that meet specified criteria, including repurchase-to-maturity agreements. The current guidance in paragraphs 860-10-40-44 through 40-46

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.

BC41. The current guidance would require 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 would be combined and accounted for as a forward agreement to sell (purchase) a financial asset, which would be evaluated under Topic 815 to determine if derivative accounting is required. If not linked, the transactions would 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).

BC42. 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 and the purchased financial asset is illiquid would result in linked accounting in all cases. Therefore, although a forward purchase agreement would be recognized, current guidance would result in no recognition of an asset on the transferee's statement of financial position and no presentation of 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, including repurchase-to-maturity agreements, should be accounted for as a secured borrowing.

BC43. Because of its view that the decision to require secured borrowing accounting for agreements that maintain the transferor's effective control over transferred financial assets should have primacy, the Board decided to override 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 would no longer be 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 the 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 to apply the requirement in paragraph 860-10-40-4(c) that would require consideration of all involvements with the transferred financial assets. The Board noted that this decision should not affect the application of the derecognition conditions to other transactions.

### Definition of the Term *Repurchase Agreement*

BC44. To maintain consistency with the scope of repurchase agreements that would be subject to the guidance in paragraphs 860-10-40-5(c)(1) and 860-10-40-24, the Board determined that the Master Glossary term *repurchase agreement* that is referenced throughout Topic 860 should be broadened to refer to financial assets rather than securities only. The Board noted that a separate definition of the term *repurchase agreement* is referenced by Topic 210, Balance Sheet, and this proposed amendment would not affect the scope or application of the associated disclosure requirements related to offsetting of assets and liabilities included in Section 210-20-50.

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

BC45. The Board decided 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, such a transfer would not call into question the transferor's intent to hold other debt securities to maturity. The Board acknowledged that such 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.

### Disclosure

BC46. 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 that involve a transfer of a financial asset and a contemporaneous agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset 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, for most entities (with the exception of investment companies), the Board noted that disclosure requirements for repurchase agreements do not result in the disclosure of information about the nature of the collateral supporting them.

BC47. The Board considered whether incremental disclosures should be proposed and the type of information that would be most relevant for users of financial statements. The Board considered requiring a comprehensive tabular disclosure of the maturity (in short-term intervals), interest rate, carrying value and fair value of collateral, and range of collateralization for repurchase agreements and other transactions that maintain the transferor's effective control based on paragraphs 860-10-40-5(c)(1) and 860-10-40-24. While this would have provided new and potentially decision-useful information about entities that use repurchase agreements as a significant source of funding, the Board determined that proposing a standardized tabular disclosure of such a detailed nature would not meet the cost-benefit threshold.

BC48. Rather, for transactions that are accounted for as secured borrowings, the Board decided that it would require disclosure of incremental information about the borrowings that would be most relevant for users of financial statements. The Board decided to require a disaggregated disclosure of the carrying value of the total secured borrowing (for example, the repurchase liability) by the class of collateral pledged. The Board asserts that this would allow financial statement users to make their own determinations about the magnitude of an entity's repurchase agreements and other transactions involving an agreement that both entitles and obligates the transferor to repurchase the transferred financial asset, the ongoing ability to obtain financing in light of the type of collateral being pledged, and the risks related to the pledged collateral.

BC49. The Board also considered requiring that an entity disclose its basis for concluding that transfers in repurchase agreements and similar transactions should be accounted for as sales or secured borrowings and for concluding that repurchased assets are not substantially the same as the initially transferred assets. The Board decided that it would not require disclosure of the basis for an accounting judgment in this circumstance because accounting judgments are required in many other circumstances with no related disclosure requirement of the basis for the judgment. Instead, the Board decided to require disclosure of 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.

## Transition

BC50. 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 decided to propose a cumulative-effect transition approach. These transactions could potentially be long-term transactions and concerns about the current accounting for them were the main reason for undertaking the project.

BC51. For all other transactions that would be affected by the amendments in this proposed Update, the Board decided to require prospective application of the proposed guidance. The vast majority of repurchase agreements and other transactions involving agreements that both entitle and obligate the transferor to repurchase or redeem a transferred financial asset from the transferee within the scope of this proposed Update generally are short term, such that most agreements initiated before the issuance of the final Update would most likely no longer be outstanding as of its effective date. Therefore, the Board would expect minimal benefit from capturing a cumulative-effect catch-up at transition related to transactions that may be outstanding as of the effective date of the proposed 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.

BC52. The Board considered but decided not to require full or modified retrospective application because those transition methods would not be 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 most likely no longer be outstanding as of its effective date. Similarly, as in past standards on repurchase agreements, the Board decided that full retrospective application would not be practical or cost-beneficial because the volume of expired financings is extensive and most repurchase financings are short term. For some aspects of the proposed guidance, such as the assessment of whether financial assets would be substantially the same, the Board decided that it would be impracticable to apply the guidance retrospectively because the assessment of whether the transaction is a sale or a secured borrowing requires certain judgments at the transaction date. Reassessing those judgments could involve the use of hindsight.

## Benefits and Costs

BC53. 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 proposed amendments, the Board decided that the improvements provided by those amendments would outweigh the costs incurred.

## Complexity in Financial Reporting

BC54. The Board considered whether providing an exception to the effective control guidance for transfers with forward repurchase agreements that settle at the maturity of the transferred asset would increase or reduce financial reporting complexity. The Board discussed whether proposing that such agreements maintain the transferor's effective control could further diminish the cohesiveness of the principles underlying the derecognition model. The Board acknowledged that requiring secured borrowing accounting for transfers with forward repurchase agreements that settle at the maturity of the transferred asset is a deviation from the current effective control concept because they are cash-settled transactions and do not result in the transferor's reacquisition of the financial asset initially transferred.

BC55. The Board noted that the other approaches explored either would not sufficiently address the concerns cited by stakeholders or would change the model for repurchase agreements and other transactions involving an agreement that both entitles and obligates the transferor to repurchase a transferred financial asset too significantly without sufficiently exploring the effect on other transfers of financial assets. The Board also reasoned that the exception for transfers with forward repurchase agreements that settle at the maturity of the transferred asset is not expected to apply to a significant population of existing transactions. Therefore, the Board determined that the proposed amendments would adequately address the practice problems at hand without significantly undermining the principles of the derecognition framework and that the approach selected would not create an unacceptable level of complexity in financial reporting.

BC56. The Board also noted that the proposed amendments for repurchase financings would be expected to reduce financial reporting complexity because an entity would no longer be required to identify and assess linkage between initial transfers and repurchase financings. Additionally, the Board asserts that the proposed amendments to the substantially-the-same characteristics and related implementation guidance would assist entities that enter into these transactions in determining whether the assets being reacquired meet those characteristics.

## Alternative Views

BC57. Two Board members disagree with the issuance of the proposed guidance.

BC58. Ms. Seidman supports the objective of more clearly differentiating the types of repurchase agreements (and similar transactions that involve a transfer of a financial asset and a forward agreement to repurchase or redeem the transferred asset) that should be accounted for as financing arrangements from those that are sales of the transferred financial assets with concurrent forward arrangements. She agrees with the proposal that repurchase-to-maturity agreements with specified characteristics should be accounted for as secured borrowing transactions. In addition, Ms. Seidman agrees with the decision to retain secured borrowing accounting for those agreements that involve a return of substantially-the-same financial assets. She believes that the narrowly defined characteristics of substantially-the-same financial assets ensure that a transferor would be indifferent between receiving the initially transferred financial asset or a substantially-the-same financial asset upon settlement of a repurchase agreement.

BC59. Ms. Seidman disagrees with the proposed guidance, however, because she believes that it does not fully resolve the issues that caused the Board to reconsider the accounting for these transactions. She believes that the proposed guidance would result in different accounting for some repurchase agreements based on their form of settlement (for example, return of the physical security or payment in cash) or the timing of settlement (for example, settlement of the repurchase agreement before, on, or after the maturity date of the transferred financial asset) when they are economically similar from a risks-and-rewards perspective.

BC60. To resolve this, Ms. Seidman supports application of a specialized model to repurchase agreements (and similar transactions, such as sales and total return swaps) on the basis of which party has the substantial risks and rewards of the transferred financial asset during the term of the agreement. She believes that this approach would appropriately extend secured borrowing accounting to all repurchase and similar agreements that involve a transfer of a financial asset and a forward agreement to repurchase or redeem the transferred

asset, regardless of the timing or form of settlement, in which the transferor retains substantial risks and rewards of the transferred financial assets during the term of the agreement. Ms. Seidman favors an explicit evaluation of the risks and rewards in those transactions rather than through the assessment of legal isolation because she is concerned that different accounting outcomes could be possible depending on the legal jurisdictions in which the transaction is executed.

BC61. Ms. Seidman believes that a narrowly applied risks-and-rewards approach for repurchase agreements builds on the existing specialized effective control guidance in Topic 860. Repurchase agreements have traditionally been regarded as unique because of the transferor's and the transferee's shared rights to the assets. Current guidance already incorporates a risks-and-rewards element because it considers the repurchase of a substantially-the-same financial asset to be sufficient to retain the transferor's effective control. Expanding the proposed guidance to apply to repurchase-to-maturity agreements, which are often settled with a net-cash payment rather than a return of the security, also is based on a risks-and-rewards assessment rather than on control. Ms. Seidman also notes that a transferor's exposure in a typical repurchase agreement to issuer-default risk and market risk, as well as its right to receive income from the assets, were factors that influenced the Board's decision to propose that the transferred financial assets remain on the transferor's balance sheet during the term of the agreement.

BC62. Ms. Seidman observes that the effective control guidance for repurchase agreements was developed at a time when most agreements primarily involved U.S. government and agency securities that had minimal risks associated with them. Over time, those transactions have evolved to include asset types with varying levels of credit risk, market risk, and liquidity risk. As a result, Ms. Seidman believes that changing the accounting model for repurchase agreements to more fully consider which party has the risks and rewards of the transferred assets during the term of the agreement would result in an improvement in financial reporting for those transactions. She also notes that broadening the scope of what would be accounted for as a secured borrowing would converge with IFRS, although the standards would be articulated differently.

BC63. Mr. Smith disagrees with the decision that effective control is maintained in repurchase agreements (or similar transactions that involve a transfer of a financial asset and a forward agreement to repurchase or redeem the transferred asset) when the financial assets to be repurchased are not identical to the initially transferred financial assets. In other words, Mr. Smith believes that transactions that involve the return of financial assets that satisfy the substantially-the-same characteristics in paragraph 860-10-40-24A should not be accounted for as secured borrowings. Rather, he believes that those transfers should be reported as sales of the transferred financial assets and that a forward purchase commitment should be recognized at the time of the sale, which represents the obligation to purchase the financial assets in the future.

BC64. Mr. Smith's objection relates primarily to the application of the proposed guidance to repurchase agreements that involve mortgage-backed pass-through and pay-through securities. In transactions in which the asset to be returned is not pre-identified at the inception of the transaction (a to-be-announced transaction), the transferor must exercise significant judgment about expected prepayment speeds to determine whether that asset will have similar weighted-average maturities that result in approximately the same market yield as the initially transferred asset. Mr. Smith appreciates that the economics of the transactions may be very similar if the returned assets are the same or are judged to be substantially the same as the transferred assets and those returned assets are not held by the transferor for long periods of time.

BC65. However, Mr. Smith notes that as time elapses, prepayment speeds for pools of assets that may appear to be substantially the same when the transaction is initiated may change from original expectations, potentially resulting in very different economic results for the holders of the securities backed by those pools. Therefore, holding a substantially-the-same asset for an extended period of time after repurchase could result in a very different economic outcome than if the identical asset had been returned. Therefore, Mr. Smith believes that it is more representationally faithful to reflect such transfers as sales and to recognize a forward purchase commitment for the asset that is to be returned.

BC66. More fundamentally, Mr. Smith believes that a transferor does not control a financial asset that has been sold in a repurchase agreement if that exact asset is not returned at the settlement of the transaction. He acknowledges that, technically, a transferor at least temporarily loses control of a transferred asset during the term of a repurchase agreement even if the identical asset is to be returned. However, he supports creating an exception to the control-based model for transfers of financial assets if the identical asset is to be returned and the terms of the transaction meet the other criteria for maintaining effective control.

## Amendments to the XBRL Taxonomy

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The FASB will expose for public comment the proposed changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that would be required were the provisions of this Exposure Draft finalized as proposed. The proposed changes to the UGT will be available on the FASB's website on or about February 15, 2013.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its *Action Alert* email service.