January 14, 2011
Technical Director
Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Via e-mail: director@fasb.org

File Reference: No. 1900-100

Re: Proposed Accounting Standards Update, Transfers and Servicing (Topic 860), Reconsideration of Effective Controls for Repurchase Agreements

Dear Technical Director:

State Street Corporation ("State Street") appreciates the opportunity to comment on FASB's Proposed Accounting Standards Update Transfers and Servicing (Topic 860). This letter is written from State Street's perspective as the leading provider of financial services to institutional investors with $20.2 trillion in assets under custody and administration as of September 30, 2010.

Although we generally agree with the objective of the proposed ASU, we have some concerns that we feel need to be addressed regarding availability of sale treatment for transactions other than repurchase agreements that are affected by removing paragraph 840-10-40-26, such as mortgage dollar rolls or other similar sell-buyback type transactions. Below are our responses to select questions posed by the Board:

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

1 840-10-40-26 With respect to the condition in paragraph 860-10-40-24(b), even if the probability of ever holding inadequate collateral appears remote, the requirement in paragraph 860-10-40-5(c)(1) would not be met (and sale accounting by the transferor would not be precluded) unless the arrangement assures, by contract or custom, that the collateral is sufficient. If a transferor is substantially over collateralized at the date of transfer but the arrangement does not provide for frequent adjustments to the amount of collateral maintained by the transferor, the requirement in that paragraph would not preclude sale accounting. That is, a mechanism to ensure that adequate collateral is maintained must exist even in transactions that are substantially over collateralized (for example, deep discount and haircut transactions) to preclude sale accounting for those transactions.
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Although the proposal appears to be focused on repurchase agreements, it has consequences to other transaction types, such as mortgage dollar rolls and sell-buyback transactions. State Street in its capacity as a third-party administrator, accounts for a high volume of repurchase agreements, mortgage dollar roll, and sell buyback transactions on behalf of its clients. These transactions for our mutual fund clients, consistent with mutual fund industry practice, are typically accounted for using sale accounting based on ASC 840-10-40-26. The consequence of removing the collateral requirements as a determinant of effective controls may result in many of these transactions being accounted for as secured borrowings. Specifically, treating these transactions as secured borrowing would (i) require significant accounting and reporting system, and procedural changes, (ii) create a book-to-tax difference in the treatment of income and capital gains, and (iii) require additional reporting of a Statement of Cash Flows as a result of the increased leverage associated with accounting for mortgage dollar roll or sell buyback transactions as secured borrowings.

State Street believes the proposed amendments will be a step towards creating a uniform accounting treatment for functionally similar transactions across mutual funds. While we support removing paragraph 840-10-40-26, we would respectfully request that FASB give serious consideration to extending the effective date until at least December 15, 2011. By doing so, FASB would provide enough time for the industry to be able to adjust its systems and procedures to properly identify and account for the aforementioned impacted transactions.

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

State Street agrees that the proposal may provide more useful information to investors. However, State Street does not agree with the Board’s assessment of the cost/impact to the industry from a time to implement perspective, as noted in our response to the previous question (#2). Our position is based on the operational changes that would be necessary to implement this proposal. Please consider moving the effective date to at least to December 15, 2011.

We appreciate your consideration of these matters and welcome the opportunity to discuss them with you.

Sincerely,

James J. Malerba  
Executive Vice President and Corporate Controller