

Please note that the comments expressed herein are solely my personal views

Financial Accounting Standards Board
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- **File Reference No. 2013-210**
- **Transfers and Servicing (Topic 860)**
- **Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings**

Dear Sir.

Thank you for giving us the opportunity to comment on your Exposure Draft: Transfers and Servicing (Topic 860); Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings.

The objective of this proposed update is to 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, and to improve the accounting and disclosures for those transactions. If the agreement meets certain criteria, including that the financial asset repurchased is identical to or substantially the same¹ as the financial asset transferred, then it would be accounted for as a secured borrowing transaction, otherwise 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.

I support the amendments in this proposed update, which effectively and proportionately address stakeholders' stated concerns without undermining the principles of the derecognition framework. The proposed amendments should reduce financial reporting complexity and promote consistency in applying the substantially-the-same reporting criteria, and will also increase internal consistency and comparability between U.S. GAAP and IFRS.

¹ The proposed amendments clarify the criteria to qualify as "substantially the same".

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Answers to other specific questions raised by the FASB

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?

Yes, the proposed amendments represent an improvement in financial reporting. The proposals effectively and proportionately address stakeholders' stated concerns, reduce complexity, and to some extent increase internal consistency and comparability between U.S. GAAP and IFRS.

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?

Yes, I 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. The amendment effectively and proportionately addresses stakeholders' stated concerns without undermining the principles of the derecognition framework.

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?

Yes, separate accounting for the initial transfer and repurchase financing would reflect the economics of those agreements. This would also represent an improvement in financial reporting and increase internal consistency within the proposed amendments.

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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?

Yes, this is reasonable as long as the term “substantially the same” reflects the economic and risk profile of the relevant assets 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. In this case the transferor is indifferent between repurchasing the initially transferred asset and repurchasing a “substantially the same” one.

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?

I agree that the proposed amendments help clarify how the substantially-the-same characteristics should be applied.

Yours faithfully

C.R.B.

Chris Barnard