

March 29, 2013

Leslie Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Via email: [director@fasb.org](mailto:director@fasb.org)

RE: File Reference No. 2013-210: *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*

Dear Chairman Seidman:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Exposure Draft *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings (ED)*. ABA represents banks of all sizes and charters and is the voice for our nation's \$14 trillion banking industry and its two million employees.

The objective of the ED is to clarify accounting and disclosures for 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. In substance, the ED addresses “repo-to-maturity” transactions and adds disclosures to address collateral used in repurchase agreements and to address transfers accounted for as sales solely because the assets to be repurchased did not have the characteristics to qualify as “substantially the same”. With that in mind, while the ED successfully addresses repo-to-maturity transactions, ABA believes the “effective control” model used by FASB (in determining whether transfers of financial assets qualify for sale accounting) still allows certain transaction structuring opportunities that can mask risk and the ED also requires disclosures that will be very difficult to comply with. As a result, we have the following recommendations:

### **Reconsider the “Effective Control” Model**

As noted in the basis of conclusions, the current “effective control” model to determine whether transfers of financial assets qualify for sales accounting allows certain transaction structuring opportunities whereby economically similar transactions may result in different accounting treatment. For example, under the effective control model, it appears that changing the maturity/redemption date of the assets subject to repurchase by one day can change the accounting result. This is evident from the examples provided in paragraph 860-10-55-51A.

With the proposed changes, the effective control model is also becoming rules-driven, and, thereby, more difficult to operationalize. With this in mind, ABA understands that FASB is considering an overall project to address the derecognition of financial assets and liabilities and,

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upon completion of this project, we support this effort and believe it is an appropriate long-term response to financial statement user concerns to the risks maintained within repurchase agreement transactions. With this in mind, we also believe that the main objective of the project was to address “repo-to-maturity” transactions and that omission of paragraph 860-10-55-51Ae (the paragraph that elevates our concern related to the effective control model) would not appear to prevent the achievement of that objective. Therefore, we also recommend that the Board consider the necessity of paragraph 860-10-55-51Ae in the final standard.

### **Detail of Disclosure for Secured Borrowings Must Allow for More Aggregation**

Paragraph 860-30-50-3a requires a schedule of secured borrowings that is disaggregated by class of financial assets pledged as collateral; the term “class” refers to the categorization used for fair value disclosures under ASC 820-10-50. We believe this disclosure will be unduly long, thus diminishing its effectiveness. Further, it will be very operationally challenging to comply with. Banks that are considered systemically important financial institutions (SIFIs) are currently reporting to the Federal Reserve similar information on their 4G Liquidity Report. However, these reports are roughly aggregated based on their regulatory risk rating, which differs from aggregation based on class. Additionally, non-SIFI institutions do not have such procedures in effect.

With this in mind, we recommend the disclosure requirement be revised to have the borrowing amounts disaggregated by collateral pools with similar risk characteristics. The disclosure requirements could/should state the intended dynamic nature of the term “similar risk characteristics,” meaning aggregation levels should change as risk characteristics evolve over time. For example, under this approach, further disaggregation would have been expected during the Eurozone debt crisis, to provide financial statement users with greater transparency of the borrowing amounts. We believe revising the disclosure requirements in this manner would allow SIFIs to harmonize the disclosure requirements with those already required for 4G Liquidity Reporting, yet still produce disclosures that are consistent with those proposed under the ED and meaningful to financial statement users. Having said this, however, we believe that at least one year is required in order to operationalize such a disclosure for the rest of the banking industry, as non-SIFIs will be challenged to implement this new standard.

### **Disclosure of Dollar Rolls Should be Omitted**

ABA recommends the proposed disclosure within paragraph 860-30-50-3b be eliminated. The requirement appears to apply to most dollar roll transactions (which qualify for sale accounting treatment). While we understand the intent of the disclosure, we believe it will not be operational in a way that will provide meaningful information to financial statement users. Bankers (specifically, the traders that execute such transactions) are not matching securities on an asset-by-asset basis to determine what is “substantially the same” and what is not. For example, agency securities are commonly used in dollar roll transactions, with securities from different agencies being subject to the various sides of the transaction. Bankers consider the securities issued by one agency to be significantly different from the others. This is a common

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occurrence. Further, however, more than one criterion of current sale/financing accounting standards are often met during a transaction that a trader would consider a “dollar roll”. Therefore, it is plain that this very judgmental process of determining what is “substantially the same” can have wide interpretation (as well as scope other non-dollar roll transactions not contemplated in the proposal). Within Basis for Conclusion paragraph BC 49, the Board notes that there are many other circumstances in which accounting judgments are made without any requirement to disclose the basis for judgment. Introducing a disclosure requirement in this case unnecessarily sets a bad precedent.

With all this in mind, as the proposed requirement is worded, we do not believe that such a disclosure will provide decision-useful information. It will be arduous to comply with, and requiring disclosure is not consistent with treatment of the many other judgment calls made in the financial statements. Therefore, we recommend its omission from the final standard.

Thank you for your attention to these matters. Please feel free to contact me ([mgullette@aba.com](mailto:mgullette@aba.com); 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael L. Gullette".

Michael L. Gullette