



March 29, 2013

Technical Director  
File Reference No. 2013-210  
Financial Accounting Standards Board  
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Transfers and Servicing (Topic 860) - Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings* (the "Proposal"). We are fully supportive of the Board's continuing efforts to respond in a timely manner to stakeholder concerns over elements of the transfers of financial assets accounting model.

The derecognition and secured borrowing accounting models in Topic 860 hinge on the concept of effective control. We believe the guidance in Topic 860 related to repurchase-to-maturity transactions is logically consistent with an effective control model. We acknowledge, however, the concerns raised by stakeholders about the usefulness of the information produced under that guidance for certain transactions. As a result of this feedback, we are supportive of the Board providing an exception to the effective control principle in order to achieve secured borrowing accounting for repurchase-to-maturity transactions. Rather than attempting to provide a principles-based exception to a principles-based model, we recommend the Board state the proposed accounting as an explicit exception for specified transactions. This would require the Board to clearly identify the legal form and characteristics of transactions that require secured borrowing accounting. We also recommend the Board include examples of transactions that are and are not covered by this exception.

The feedback received by the Board from its constituents regarding transfers of financial assets, coupled with the Board's focus on refining the consolidation models, highlights an opportunity for the Board to more holistically reconsider the derecognition model. A relationship should exist between the consolidation model, based upon having a controlling financial interest, and the corresponding model of derecognition. Thus, while we are supportive of the exception provided in the Proposal, the longer-term solution rests in a broader reconsideration of the derecognition model. We believe this would also be responsive to the Alternative Views expressed in the Proposal.

Attached to this letter is Appendix A, which contains our responses to the Questions for Respondents included in the Proposal and further expands on our comments above. If you have any questions, please contact Paul Kepple at (973) 236-5293, Donald Doran at (973) 236-5280, or Chip Currie at (973) 236-5331.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP



## Appendix A - Responses to Questions for Respondents contained in the Proposal

***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?***

We are supportive of the Board's objective of being responsive to constituent feedback in this area and therefore of the end result of secured borrowing accounting for repurchase-to-maturity transactions. However, we are not supportive of attempting to provide a principles-based exception to a principles-based model. In our view, such an approach is likely to lead to confusion in practice. We recommend the Board simply make an explicit exception to the effective control model for specified transactions.

The guidance in the beginning of proposed paragraph 860-10-40-24 suggests that to maintain effective control under 860-10-40-5(c)(1), an agreement must exist to repurchase the transferred financial assets. However, proposed paragraph 860-10-24(aa)(3) seems to be designed to provide further clarity on the application of this guidance for transactions where the agreement to repurchase settles on the same date as the maturity of the transferred financial asset. This guidance suggests that the manner in which the obligation to repurchase is settled is irrelevant. The example provided in 860-10-55-51A seems to further reinforce this. As a result, this proposed guidance would appear to expand the retention of effective control well beyond repurchase-to-maturity transactions.

An example of a transaction that could be in the scope of the Proposal is a transaction involving a sale of a financial asset and a total return swap (TRS) expiring upon the maturity of the transferred financial asset. In this transaction, the transferor transfers a financial asset to the transferee in exchange for cash. The transferor contemporaneously enters into a TRS with the transferee where the reference obligation is the financial asset initially transferred. The TRS expires upon the maturity of the financial asset transferred. On that date, there is a net exchange of cash to settle the arrangement. This cash settlement is equivalent to the net cash settlement of an obligation to repurchase discussed in 860-10-24(aa)(3). We do not believe it is the Board's intent that this transaction be subject to the secured borrowing model, but the proposed guidance noted above could result in such an outcome.

To expeditiously address the feedback from its constituents, we recommend the Board provide an explicit scope exception to the effective control model and require secured borrowing treatment for the types of transactions that stakeholders have raised concerns over. An explicit scope exception would be a clear and efficient way to achieve the Board's short-term goals. This would require the Board to clearly identify the legal form and characteristics of transactions that require secured borrowing accounting. Further, we recommend including examples of transactions that are, and are not, covered by this scope exception.

We also recommend providing a definition of the term "maturity," or providing guidance for applying that term. Such guidance currently exists in 860-10-55-51. However, it would be deleted under the Proposal.



***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?***

As previously indicated, we are supportive of the use of secured borrowing accounting for repurchase-to-maturity transactions given the feedback the Board has received from constituents. We would simply articulate this as an exception to the effective control model. To do otherwise will likely result in additional implementation issues. We believe any broader consideration of economically similar transactions or other questions on derecognition should only be addressed through a broader reconsideration of the effective control model.

***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?***

We support the Board's decision with respect to the repurchase financing guidance.

***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, we believe economically similar transactions should have similar accounting. We would not propose changing this aspect of the model without reconsidering the Topic 860 model more broadly. We note that this concept has been a component of the effective control guidance since the issuance of FAS 125 (*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*) in 1996 and originated, in part, from constituents' comments on the business purpose of certain repurchase transactions.

***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?***

Certain of the proposed amendments to the substantially-the-same characteristics may help clarify how those characteristics should be applied. However, we do not believe that the proposed changes in paragraph 860-10-55-35 will address all of the diversity in practice as the analysis is often highly (and



inherently) judgmental. We also recommend that the Board make clear that these additional clarifications are solely examples of how the analysis may be performed as opposed to an explicit required methodology.

The costs of implementing these clarifications as required methodologies when analyzing whether financial assets exchanged are substantially the same may outweigh the benefits of the changes.

As an alternative, the Proposal could include language emphasizing the need to perform an analysis of whether the contract requires the delivery of an asset that is substantially the same. We believe the focus of this analysis should be on the prospective requirements of the contract and not solely on historical experience.

***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?***

No. The disclosures in the Proposal seem to be limited to transactions that do not qualify for sale accounting under the effective control criteria in paragraph 860-10-40-5(c)(1). Transfers of financial assets may be required to be reflected as a secured borrowing for other reasons (e.g., lack of legal isolation, inability of the transferee to pledge or exchange the asset, or not qualifying as a participating interest). It may be difficult to isolate transactions that did not qualify for sale accounting due to the transferor maintaining effective control under a specific provision from other failed sale transactions. It is unclear why a disclosure that would be triggered by a failure to achieve derecognition due to the effective control criteria in 860-10-40-5(c)(1) would provide decision useful information but a disclosure of failed sale transactions involving other collateralized borrowings would not. Further, companies typically do not maintain records of all or which of the reasons a transfer is accounted for as a secured borrowing. Most may not complete the analysis after finding a single reason why sale accounting cannot be achieved (e.g., if legal isolation was not met).

Accordingly, in lieu of the proposed disclosure, we recommend the Board consider what the appropriate disclosures should be as part of its broader reconsideration of liquidity and interest rate risk disclosures.

***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?***

No. Repurchase arrangements that meet derecognition requirements are typically accounted for as sales with a forward repurchase commitment. Such forward repurchase agreements are generally accounted for as derivative instruments. As a result, entities generally provide the disclosures required under Topic 815. These disclosures are designed to provide users with information regarding the use of derivative instruments and their underlying risks.

The SEC's Division of Corporation Finance in its sample letter to public companies in March 2010 asked for certain information related to repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets. That request for information prompted many public company financial institutions to consider areas



where their disclosures in this area could be enhanced. If the Board pursues additional disclosures, we believe this would be an appropriate template to consider.

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

Yes, we understand that certain issues may arise in complying with the proposed disclosures. For example, with respect to the proposed disclosures in paragraph 860-30-50-3(a), we understand that systems may not be able to isolate transactions that are required to be accounted for as secured borrowings because the transferor maintains effective control over the transferred financial assets under a specific provision in the guidance.

With respect to the proposed disclosures in paragraph 860-30-50-3(b), we understand that once a determination is made that a repurchase agreement should be accounted for as a sale, the forward repurchase agreement is processed and accounted for in a manner similar to other forward repurchase agreements that did not result from a transaction involving the transfer of a financial asset. For example, a forward repurchase agreement may be processed, valued, and accounted for as a derivative instrument similar to other forward purchase agreements that were entered into without a concurrent transfer of a financial asset. We also understand that many constituents frequently buy, sell, and trade agency wrapped securities. Such trades may not be traditionally thought of as a repurchase transaction, such as the sale of a GNMA security and forward purchase of a FNMA security. Isolating forward purchase agreements that were transacted concurrent with a transfer of a financial asset from a broader population of similar and identical forward purchase obligations may be challenging.

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

Yes.

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

Yes, early adoption should be permitted for both public and nonpublic entities.

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

No. We recommend that a one-year deferred effective date apply to private companies.