

Ernst & Young LLP 5 Times Square New York, NY 10036

Tel: 212 773 3000 www.ey.com

Ms. Susan Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 29 March 2013

Re: Proposed Accounting Standards Update, Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings* (the Proposed Update).

We generally agree that repurchase-to-maturity agreements with the characteristics described in the Proposed Update should be accounted for as secured borrowings. Accounting for these repurchase-to-maturity transactions as secured borrowings would better align the accounting with the economics of these transactions.

However, we believe the accounting for the derecognition of financial assets needs to be more broadly re-examined. Even after the Proposed Update is finalized, repurchase agreements with similar economics would continue to be accounted for differently based on their form (e.g., settlement in cash as opposed to the physical return of the transferred asset). We believe the Board should develop a model that would result in more consistent accounting for economically similar transactions. As an interim step, we believe the Board should reconsider the disclosure requirements in this area.

The Proposed Update would also require that a repurchase financing be accounted for separately from the initial transfer of the asset. The basis for conclusions to the Proposed Update states that the Board intended to override the current requirement to link the initial transfer with the first leg of the repurchase agreement for accounting purposes. We believe the Board should make it clear that entities should treat this concept as an exception when applying all of ASC 860's derecognition criteria, including the legal isolation criterion.

Because the pricing of the initial transfer and the repurchase financing can be connected, the Board should consider requiring reporting entities to disclose the terms of the arrangements. Also, the initial transferee (borrower) should provide users with information about the entity's exposure to less favorable financing terms or funding risks if the existing arrangement with the initial transferor (lender) is not extended past its maturity date. For example, if significant, the entity should disclose whether it would be able to borrow the same amount at similar rates from different lenders.



We also discuss these recommendations in the Appendix to this letter in conjunction with our responses to select questions posed in the Proposed Update.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Responses to select questions raised in the Proposed Accounting Standards Update, Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

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?

Response:

We generally support the Proposed Update's amendments to account for repurchase-to-maturity agreements as secured borrowings, as the proposed accounting for these arrangements would be better aligned with their underlying economics.

However, as we note in our cover letter, the Proposed Update does not address transactions that are similar in nature. Accordingly, inconsistent accounting may result for repurchase arrangements that have similar economic risks and rewards but vary in form due to the timing of settlement (i.e., before or at maturity of the transferred financial asset) and type of settlement (i.e., cash or physical return of the transferred asset). Therefore, we urge the Board to more broadly re-examine the accounting for the derecognition of financial assets.

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?

Response:

To give users of financial statements more comparable and transparent information about transactions that involve the transfers of financial assets and repurchase agreements, we believe the Board should more broadly reconsider this area of accounting. In the interim, however, the Board should challenge whether additional disclosures are needed to narrow the gap for repurchase agreements and similar transactions that have similar economic risk and reward profiles, but whose form results in significantly different accounting.

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?

Response:

ASC 860-10-40-4(b) and 4(c) require the transferor's continuing involvement in the transferred financial assets, including all arrangements or agreements made contemporaneously or in contemplation of the transfer, to be considered in determining whether the transferor should derecognize transferred financial assets.

We believe the Board should make clear that the separate accounting for the initial transfer and repurchase financing is an exception to ASC 860. As a result, ASC 860-10-40-5 and related guidance would not apply to repurchase financings in which the sole form of continuing involvement by the initial transferor is the repurchase agreement. Otherwise, transferors are unlikely to be able to meet the legal isolation criterion, and the Proposed Update would not result in any change to today's accounting.

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?

Response:

We agree with the Board that sale accounting should continue to not be permitted if the transferor is both entitled and obligated to reacquire a financial asset that is substantially the same as the initially transferred asset. Similar to our view of the proposed accounting for repurchase-to-maturity transactions, we believe derecognition of the transferred asset should not be permitted when the transferor has retained substantially all the risks and rewards of ownership.

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?

Response:

In transactions in which the asset to be returned is not identified at the inception of the transaction (a to-be-announced transaction), entities must exercise 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. As a result, it would be helpful for the Board to provide additional implementation guidance to illustrate how the substantially-the-same criteria should be applied.

Questions 6 and 7 have been intentionally omitted.

Question 8:

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

Response:

Refer to our responses to questions 3 and 5 above.

Question 9:

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

Response:

We agree with the transition provisions in the Proposed Update.

Question 10:

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

Response:

We believe early adoption should be permitted both for public and nonpublic entities.

Question 11:

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

Response:

We believe the effective date should be the same for both public and nonpublic entities, but no earlier than one year from the date the Proposed Update is approved.