new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

March 19, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update – Transfers and Servicing (Topic 860):
Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

(File Reference No. 2013-210)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact J. Roger Donohue, Chair of the Financial Accounting Standards Committee at (917) 887-7809, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Gail M. Kinsella
President

Attachment

new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE – TRANSFERS AND SERVICING (TOPIC 860): ***EFFECTIVE CONTROL FOR TRANSFERS WITH FORWARD AGREEMENTS TO REPURCHASE ASSETS AND ACCOUNTING FOR REPURCHASE FINANCINGS***

(FILE REFERENCE NO. 2013-210)

March 19, 2013

Principal Drafters

J. Roger Donohue
Roseanne T. Farley
Sharon Sabba Fierstein

NYSSCPA 2012 – 2013 Board of Directors

NYSSCPA 2012 – 2013 Accounting & Auditing Oversight Committee

NYSSCPA 2012 – 2013 Financial Accounting Standards Committee

NYSSCPA Staff

New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update – Transfers and Servicing (Topic 860): *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*

General Comments

The Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants has reviewed the 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 Update). We agree it is critical that the accounting for repurchase agreements be amended to achieve consistency in application. As the marketplace for repurchase agreements has evolved, so must the guidance governing the accounting for such agreements.

Specific Comments

We have the following responses to the questions provided in the Update:

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 believe that the proposed guidance would represent an improvement in the accounting for such agreements because, under prior guidance, certain entities recorded these types of transactions as sales. The proposed guidance should provide a consistent approach for all financial statement preparers.

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: Yes, we 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 proposed requirements should only apply to the types of transactions that meet the criteria described in Question 1.

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 agreement reflect the economics of those agreements? Do these proposed amendments represent an improvement in financial reporting?

Response: Yes, these proposed amendments represent an improvement in financial reporting. The proposed accounting is appropriate because it reflects the economics of the two separate transactions. The proposed guidance represents an improvement over existing guidance since the nature and details of each of the transactions would be clear.

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 believe that if the assets are substantially the same, the transferor does maintain control. This position is recognized by the financial markets, and would be consistent with current practice.

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: The proposed guidance is very detailed and provides examples for each characteristic related to the concept of substantially-the-same. We believe that operability would depend on the systems of specific companies and the granularity of such data. The proposed guidance provides enough detail for companies to determine which securities would not meet the requirements.

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 useful information? If not, what disclosures, if any, about these transactions should be required and why?

Response: Yes, this proposed disclosure provides useful information. The disclosures required in the proposed guidance would provide useful information to users of financial statements because they would alert readers to any potential concentration issues with respect to a company's use of repurchase agreements.

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?

Response: We believe that the proposed disclosure would provide useful information, particularly if a large number of assets met this definition. However, we do not believe that the disclosure requirement should be expanded to include all sale transactions since the issue of substantially-the-same would no longer stand out as a highlighted issue.

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

Response: We foresee one significant auditing issue in complying with the proposed disclosures. As we noted in our Response to Question 5, we believe that operability will depend on whether a company maintains good quality data or has to make significant changes to its processes to comply with the new requirement. The issue of operability would, in turn, impact the auditor's ability to audit the data in an efficient and effective manner.

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

Response: Yes, we agree with the transition provisions in the proposed Update, as long as sufficient time is given to allow companies to prepare for this change in guidance. For example, we would prefer that at least a year is given from the time of approval to allow companies to prepare for the change in requirements.

Question 10: Should early adoption be permitted? Should this be the case for both public entities and nonpublic entities?

Response: No, we do not believe that early adoption should be permitted because we believe that early adoption could cause confusion in the marketplace. We would prefer that the transition provisions be the same for all entities, except as noted in our Response to Question 11.

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

Response: No, we do not believe that the effective date should be the same for public and non-public entities. As has been done for many recent changes in accounting guidance, we believe that non-public entities should be required to comply on a lagged basis compared to public entities. As we noted in our Responses to Question 5 and 8, operability could be an issue for non-public entities and, therefore, additional time to prepare for compliance would be desirable.