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January 17, 2011

Ms. Leslie F. Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06865-5116

Re: Proposed Accounting Standards Update, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements* (File Reference No. 1900-100)

Dear Ms. Seidman,

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or the "Board") Proposed Accounting Standards Update, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements* (the "Proposed Update" or "Update").

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

[1] With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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Question 1: Would the proposed amendments represent an improvement and simplification to the assessment of effective control for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity? Are the proposed amendments clear and appropriate? Will the proposed amendments result in financial reporting that provides users with decision-useful information?

CFA Institute has consistently supported, and long advocated for, financial reporting standards that reflect the economic substance of transactions rather than standards that can be used by entities to structure transactions solely to achieve an accounting result. The existing standards that address the financial reporting for repurchase agreements and derecognition of financial assets (i.e., sales vs. secured borrowings) were used by certain high profile financial institutions to achieve an accounting result which ultimately masked significant exposure to risks. For that reason, CFA Institute agrees with the Board that the criterion pertaining to an exchange of collateral should not be a determining factor of effective control. Rather, effective control is more appropriately determined by considering the transferor's rights and obligations with respect to the transferred financial assets. We believe that the requirements in the Proposed Update will lead to more decision-useful information for investors and other users of the financial statements; however, we believe it is important for investors to have disclosures which enable them to understand when economically similar transactions have been accounted for differently. This is not addressed by the proposed changes.

We also believe it is important to consider the implications of removing this criterion on the amount of collateral required to support repurchase arrangements. For those who sought a sale accounting result and reduced the collateral to a level just below the 98-102% level generally considered to be the effective control level, the level of collateral could increase. For those engaging in repurchase transactions, however, the requirement to hold a significant level of collateral may be decreased due to the removal of the requirement leaving entities exposed to a more significant risk of loss. These are credit risk rather than accounting decisions, but they are risks that users need to understand. Disclosures regarding the sufficiency of the underlying collateral should be made to ensure investors understand these risks. While many companies currently provide these disclosures, they are relatively generic and "boilerplate" in nature. We believe that more specific disclosures regarding a company's collateral arrangements for major classes of financial assets would be helpful to investors to better understand the risks of these transactions.

While the removal of this bright line criterion is a step in the right direction to achieving accounting results that mirror the economics of these transactions, the recent financial crisis demonstrated the need for disclosures that would enable investors and other users to better understand the nature of these repurchase arrangements, securities lending transactions, and sales with forward agreements and their associated credit and liquidity risks.

Investors and other users were not provided with, and continue to lack, sufficient disclosure to understand the liquidity demands associated with the repayment of these secured borrowing transactions. Many institutions did not, and do not, make the "borrow short and lend long" nature of certain of these arrangements obvious to investors or other users of the financial statements and there is no specific guidance which requires such liquidity disclosures in the financial statements. The liquidity demands of these transactions were, and are, measured in days and weeks rather than years as required by many debt maturity schedules. Debt maturity schedules – requirements which many deemed were not applicable to these transactions due to their short-term nature or the fact that they were deemed to be business activities rather than debt– were not provided. Because of this lack of disclosure, investors and other users did not understand that "less than one year" could mean that such repayments under securities lending transactions, repurchase arrangements, or forward commitments could be entirely due in days and weeks.

Simultaneously, the financial statements did not disclose the use of the cash, or other collateral received under such transactions. For example, for securities lending transactions, financial statements did not disclose that cash received from the lending of the underlying securities was invested in illiquid assets which exaggerated the duration and liquidity mismatch. Similarly, for the cash received in connection with the “sale” of certain assets and the simultaneous execution of a forward commitment to repurchase these assets there was no disclosure to explain that such cash was used to reduce other borrowings, thereby reducing the reported leverage of the organization. The immediate nature of the liquidity demands combined with the illiquid nature of the associated assets was not apparent to investors and other users of the financial statements.

Further complicating the liquidity analysis needed by investors and other users was the fact that the consolidated financial statements did not reflect the location of such liquidity demands. In regulated entities where cash flow and dividend requirements are established by state and/or Federal regulators and where cash cannot flow freely between entities to meet such liquidity demands, the financial statements should better reflect the location of transactions which can create such immediate liquidity needs and the impact they can have on the ongoing activities of holding or operating companies. The recent financial crisis demonstrated that the existing standardized disclosures of dividend restrictions or statutory capital requirements are not sufficient. During such crisis, certain holding companies – where owners of most public equity (common and preferred) reside – were left without sufficient cash to meet necessary liquidity demands and their underlying bank and insurance operating companies were required to take significant actions to trade securities between portfolios and sell securities unrelated to the various repurchase and securities lending transactions to mitigate losses on illiquid securities and meet the liquidity demands of these transactions. Accordingly, CFA Institute recommends that the Board require improved disclosures in this area so that investors can better understand the short-term liquidity needs imposed by these arrangements, including the location of those demands with the consolidated group, as well as the use of cash received in these transactions.

Question 2: The Board plans to require that the amendments in the final Update be effective for entities as of the beginning of the first interim or annual period after its issuance. Are there any significant operational issues that the Board should consider in determining the appropriate effective date for the final amendments?

We agree with the proposed effective date as of the beginning of the first interim or annual period after its issuance. In our view, this effective date should not pose significant operational issues since the Proposed Update will simplify the existing accounting treatment for repurchase agreements. The Board should finalize the amendments during the first quarter of 2011, so that the amendments will be reflected in the interim statements ending the second quarter 2011.

Question 3: Paragraphs BC16 and BC17 set out the Board's assessment of the costs and benefits of the proposed requirements. Do you agree with the Board's assessment that the benefits of the proposals outweigh the cost? Why or why not?

It is our belief that the costs of implementation should be minimal. The benefits should clearly outweigh the seemingly nominal cost of implementation.

Question 4: Should the amendments in this proposed Update be different for nonpublic entities (private companies and not-for-profit organizations)? If the amendments in this proposed Update should be applied differently to nonpublic entities, please provide a rationale for why.

CFA Institute believes that the amendments in the Proposed Update should be the same for both public and non-public entities. This guidance should also be applicable to investment companies, broker-dealers and pensions plans.

If you, other board members or your staff have questions or seek further elaboration of our views, please contact either Matthew Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org, or Sandra Peters, CFA, by phone at +1.212.754.8350, or by e-mail at sandra.peters@cfainstitute.org.

Sincerely,

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Managing Director
Standards and Financial Markets Integrity

/s/ Gerald I. White
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Chair
Corporate Disclosure Policy Council

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