

COMMENT LETTER

April 4, 2013

ICI Comment Letter On FASB Repurchase Agreements Proposal (pdf)

4/4/20134/4/20134/4/2013 April 4, 2013 Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Re: 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 Investment Company Institute¹ appreciates 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. We support the Board's efforts to clarify when a transfer of an existing security with an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred security from the transferee should be accounted for as a secured borrowing transaction. We have concerns, however, with the proposed disclosure that would require transferors to disclose the carrying amount of assets derecognized during the reporting period and the reasons for any change in this amount since the previous balance sheet date. 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? 1 The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$14.7 trillion and serve more than 90 million shareholders. 2 Certain SEC registered investment companies enter into a type of repurchase transaction known as dollar roll repurchase agreements (sometimes referred to as a mortgage dollar roll or MDR). Based on current guidance in Topic 860, MDRs are frequently treated as a sale of securities and a forward repurchase agreement. We believe this accounting treatment generally would not change under the proposed ASU. We appreciate the Board's efforts to improve disclosure for repurchase agreements where securities transferred are derecognized in order to provide financial statement users greater transparency into these transactions. We believe, however, that the proposed disclosure would not meaningfully enhance the disclosures

already provided by SEC registered investment companies and we therefore recommend that they be exempt from providing the proposed disclosure. SEC registered investment companies currently disclose:

- Their portfolio turnover rate, a measure of the fund's portfolio trading over the reporting period. We believe funds include sales and purchases relating to MDRs in their portfolio turnover rate. In addition, we believe many funds voluntarily disclose the effect of MDRs on portfolio turnover by disclosing either portfolio turnover excluding sales and purchases attributable to MDRs or the amount of turnover attributable to MDRs;
- The dollar amount of proceeds from sales of securities and the cost of securities purchased during the reporting period; and
- The accounting policy relating to investments in MDRs, including the associated risks.

We believe the disclosures described above provide fund investors with sufficient information on transfers of securities that are not characterized as a secured borrowing. In particular, we believe isolating the effect of MDRs on portfolio turnover is more readily understood by fund shareholders than the proposed disclosure. If you have any questions on our comments or require additional information, please contact the undersigned at 202/326-5851 or smith@ici.org. Sincerely,

Gregory M. Smith Senior Director – Fund Accounting cc: Rosemarie Sangiuolo, FASB Shahid Shah, FASB

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