

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



► SUBJECT

FASB ISSUES ASU ON REPURCHASE-TO-MATURITY TRANSACTIONS, REPURCHASE FINANCINGS, AND NEW DISCLOSURES

► SUMMARY

On June 12, 2014, the FASB issued ASU 2014-11¹ to change the accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This will result in accounting for both types of arrangements as secured borrowings on the balance sheet. Additionally, the ASU introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. The ASU is available [here](#).

► SCOPE:

ASU 2014-11 applies to all entities that enter into repurchase-to-maturity transactions² or repurchase financings³. In addition, all entities are subject to new disclosure requirements for certain transactions that involve the transfer of a financial asset accounted for as a sale. All entities also are subject to new disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings.

CONTACT:

ADAM BROWNNational Assurance Partner
214-665-0673 / abrown@bdo.com**GAUTAM GOSWAMI**National Assurance Partner
312-616-4631 / ggoswami@bdo.com**CHRIS SMITH**Audit & Accounting Professional
Practice Leader
310-557-8549 / chsmith@bdo.com

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 49 offices and over 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,264 offices in 144 countries.

www.bdo.com

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

¹ *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*

² A repurchase agreement in which the settlement date of the agreement to repurchase a transferred financial asset is at the maturity date of that financial asset and the agreement would not require the transferor to reacquire the financial asset.

³ A repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty) that is entered into contemporaneously with, or in contemplation of, the initial transfer.

► MAIN PROVISIONS:

The ASU introduces two accounting changes to the transfers and servicing guidance in Topic 860.

1. Repurchase-to-maturity transactions will be accounted for as secured borrowing transactions on the balance sheet. Previously, they were accounted for as sales when certain conditions were met.
2. For repurchase financing arrangements, an entity will account separately for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. This will also generally result in secured borrowing accounting for the repurchase agreement.

With respect to disclosures, the ASU requires a transferor to disclose information about transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the transferee. Those disclosures are intended to provide users of financial statements with information to compare transactions accounted for as sales with similar transactions accounted for as secured borrowings.

In addition, the ASU introduces the following disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings:

1. A disaggregation of the gross obligation by the class of collateral pledged.
2. The remaining contractual tenor of the agreements.
3. A discussion of the potential risks associated with the agreements and the related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

► EFFECTIVE DATE AND TRANSITION:

For public business entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014.

For all other entities, the ASU's accounting and disclosure amendments are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015.

All entities are required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Earlier application for a public business entity is prohibited; however, all other entities may elect to apply the accounting changes for interim periods beginning after December 15, 2014. The disclosures are not required to be presented for comparative periods before the effective date.