

David - If Sampson and Huber ~~do not~~ feel  
12/20 that taking this "hard line" position  
at this time will not jeopardize  
the prospect of requiring all publicly owned  
S+Ls to file with the SEC - as will  
be proposed by the administration  
MEMORANDUM shortly - then go ahead.  
My concern is that taking such a

December 20, 1984

TO : Chairman Shad

FROM: David Martin DM

RE : Proposed Staff comment letter to  
Federal Home Loan Bank Board regarding  
Accounting for Repurchase Agreements

position at this time will  
galvanize the S+Ls opposition to  
the prospective legislation. Shad

OCA and Corporation Finance are circulating, for seriatim approval, a proposed staff comment letter to the Federal Home Loan Bank Board on its proposed statement of policy concerning the accounting for repurchase agreements. Market Regulation concurs in the recommendation. I agree.

The proposed statement of policy, the formal comment period for which closes on December 31, 1984, evolves from the Commission's action regarding Financial Corporation of America last summer. After that matter, our staff worked with the Bank Board, the accounting profession and the FASB in an effort to develop interim guidelines for the accounting for repurchase agreements and related transactions. Although it is clear that the FASB must deal with this area, they will not get to it soon enough for December 31, 1984 financial statements. Consequently, the Bank Board has decided to develop interim guidance.

Originally, it appeared that the Bank Board would issue an "internal memorandum" that had been developed in conjunction with our staff. Ultimately, however, the Bank Board determined to change the form of the document to a statement of policy and request public comments. The proposed policy statement varies from the internal memorandum in several respects. For this reason, OCA and Corporation Finance propose to send a staff comment letter to the Bank Board. Along with a number of specific, technical comments, the comment letter would address three principal issues:

a. Applicability - The statement implies that the Bank Board's policy applies to financial statements prepared in

accordance with GAAP, as well as those filed with the Bank Board. The comment letter recommends that it be made clear that the Bank Board only has authority over reports filed with it.

b. Ability to Fund - In various provisions of the policy statement, there is a reference to the institution's "ability to fund." The comment letter urges that a definitive or objective funding test be developed.

c. Holding Period - The proposed statement of policy contains no holding period for reverse repurchase agreements. The comment letter recommends that there should be a holding period, perhaps as short as 35 days, prior to entering into all repurchase transactions. The most effective way to distinguish between short-term collateralized borrowing transactions and speculative trading activities is to require that mortgage backed securities be owned for a reasonable period of time before a repurchase transaction can be accounted for as a financing.

Upon your approval, I will sign off on the seriatim.