**RECONSIDERATION OF REPURCHASE AGREEMENTS**

***Anthony H. Catanach Jr. and J. Edward Ketz***

***Grumpy Old Accountants, May 7, 2011***

The FASB recently amended the rules for the accounting for repurchase agreements. The Board touts this Accounting Standards Update (ASU 2011-03) as an improvement because it responds to various user concerns and it improves transparency. Yet again the FASB misses the point of financial reporting and continues to help managers construct all sorts of messages that are at best garbled.

The upshot of this new promulgation is the removal of the criterion concerning collateral from the determination of effective control of the transferred resources. In other words, “the assessment of effective control should focus on a transferor’s contractual rights and obligations…not on whether the transferor has the practical ability to perform in accordance with those rights or obligations.”

At first blush, one finds it strange that the practicality to perform is tossed out for some academic and ambiguous assessment of contractual rights and obligations. After all, the nature of the collateral is sewn into the fabric of those rights and obligations. But the main point is that the FASB still does not concentrate on the fundamental essence of repurchase agreements.

What the Board should do in this and every other deliberation is examine the economic substance of the transaction. And the substance of a repurchase agreement is that it is a secured borrowing. Thus, all repurchase agreements should be accounted for as secured borrowings.

By allowing managers the option to account for a repo as either a secured borrowing or as a sale—and providing sufficiently complex, ambiguous rules so that managers have considerable room to opt for their preferred choice—the FASB remains a powerful tool in the hands of corporate America.

We are not sure when the FASB first became a captured regulatory body, but the appointment of Leslie Seidman certainly cemented that status. Through this and other activities, she supplies the banking industry a license to continue its furtive reporting practices.

*This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.*