

## Statement of Statutory Accounting Principles No. 45

### Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements

#### STATUS

Type of Issue:	Common Area
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Affects:	No other pronouncements
Affected by:	Superseded by SSAP No. 91R
Interpreted by:	INT 00-11, INT 01-31

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**Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements****SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for repurchase and reverse repurchase agreements, including dollar repurchase and dollar reverse repurchase agreements.

**SUMMARY CONCLUSION**

2. Repurchase agreements, reverse repurchase agreements and dollar repurchase agreements meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

**Repurchase Agreements**

3. Repurchase agreements are defined as agreements under which a reporting entity purchases



13. For the purchaser in a dollar repurchase agreement, an asset is recorded for the amount of the purchase. Since the term of the agreement is limited to twelve months, it is accounted for as a short-term investment. Upon completion of the reverse repurchase agreement, cash is received in exchange for a “substantially the same” security. The difference between the purchase and reselling price represents interest income for the lending of short-term funds.

#### **Criteria to Meet Substantially the Same**

14. For debt instruments, including mortgage-backed securities, to be substantially the same, all the following criteria must be met:

- a. The debt instruments must have the same primary obligor, except for debt instruments guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which case the guarantor and terms of the guarantee must be the same;
- b. The debt instruments must be identical in form and type so as to give the same risks and rights to the holder;
- c. The debt instruments must bear the identical contractual interest rate;
- d. The debt instruments must have the same maturity except for mortgage-backed pass-through and pay-through securities for which the mortgages collateralizing the securities must have similar remaining weighted average maturities (WAMs) that result in approximately the same market yield;
- e. Mortgage-backed pass-through and pay through securities must be collateralized by a similar pool of mortgages, such as single-family residential mortgages; and
- f. The debt instruments must have the same aggregate unpaid principal amounts, except for mortgage-backed pass-through and pay-through securities, where the aggregate principal amounts of the mortgage-backed securities given up and the mortgage-backed securities reacquired must be within the accepted “good delivery” standard for the type of mortgage-backed security involved.

#### **Separate Transactions**

15. Agreements to repurchase and resell securities that do not meet the definitions in paragraph 3, 6, or 9 of this statement shall be accounted for as two separate transactions, that is, as a sale and purchase or as a purchase and sale, in accordance with the relevant statutory accounting guidance. For example, sales of bonds would result in recognition of realized gains or losses.

#### **Offsetting**

16. Reporting entities may operate on both sides of the repurchase agreement market resulting in recording of liabilities and assets representing repurchase and reverse repurchase agreements, respectively.

17. Reporting entities shall offset such liabilities and assets only to the extent that one of the following occurs:

- a. A legal right of offset exists as defined in *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* (SSAP No. 64), or

- b. The securities have the same settlement date, are executed with the same counterparty in accordance with a master netting arrangement, involve securities that exist in “book entry” form, and settle on securities transfer systems that have the same key elements and operating characteristics as the Fedwire Securities Transfer System.

Otherwise, separate assets and liabilities shall be recognized.

### Disclosures

18. The following disclosures shall be made in the financial statements:
  - a. If the reporting entity has entered into repurchase agreements, its policy for requiring collateral or other security;
  - b. A description of the securities underlying the agreements, including book values and fair values, maturities, and weighted average interest rates for the following categories: (i) securities subject to reverse repurchase agreements; (ii) securities subject to repurchase agreements; (iii) securities subject to dollar repurchase agreements; and (iv) securities subject to dollar reverse repurchase agreements; and
  - c. A description of the terms of reverse repurchase agreements whose amounts are included in borrowed money.
19. Refer to the preamble for further discussion regarding disclosure requirements.

### Relevant Literature

20. This statement adopts *AICPA Statement of Position 90-3, Definition of the Term Substantially the Same for Holders of Debt Instruments, as Used In Certain Audit Guides and a Statement of Position*.
21. This statement adopts paragraphs 9-13, 15-17, 23-25, 27-30 and 66-71 of *FASB Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 125), as they relate to repurchase agreements, reverse repurchase agreements and dollar repurchase agreements.
22. This statement adopts *FASB Emerging Issues Task Force No. 84-20, GNMA Dollar Rolls*. This statement is consistent with *FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts—an interpretation of APB Opinion No. 10 and FASB Statement No. 105* (FIN 39) (as it relates to reverse repurchase and repurchase agreements) and *FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements—an interpretation of APB Opinion No. 10 and a modification of FASB Interpretation No. 39* (FIN 41). FIN 39 and FIN 41 are adopted in SSAP No. 64.
23. This statement rejects paragraph 14 of FAS 125 as it relates to the classifications of securities under *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* (FAS 115). FAS 115 is rejected in *SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities*.

### Effective Date and Transition

24. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

**AUTHORITATIVE LITERATURE****Generally Accepted Accounting Principles**

- *AICPA Statement of Position 90-3, Definition of the Term Substantially the Same for Holders of Debt Instruments, as Used In Certain Audit Guides and a Statement of Position*
- *FASB Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
- *FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts—an interpretation of APB Opinion No. 10 and FASB Statement No. 105*
- *FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements—an interpretation of APB Opinion No. 10 and a modification of FASB Interpretation No. 39*
- *FASB Emerging Issues Task Force No. 84-20, GNMA Dollar Rolls*

**RELEVANT ISSUE PAPERS**

- *Issue Paper No. 45—Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements*