



On the Radar

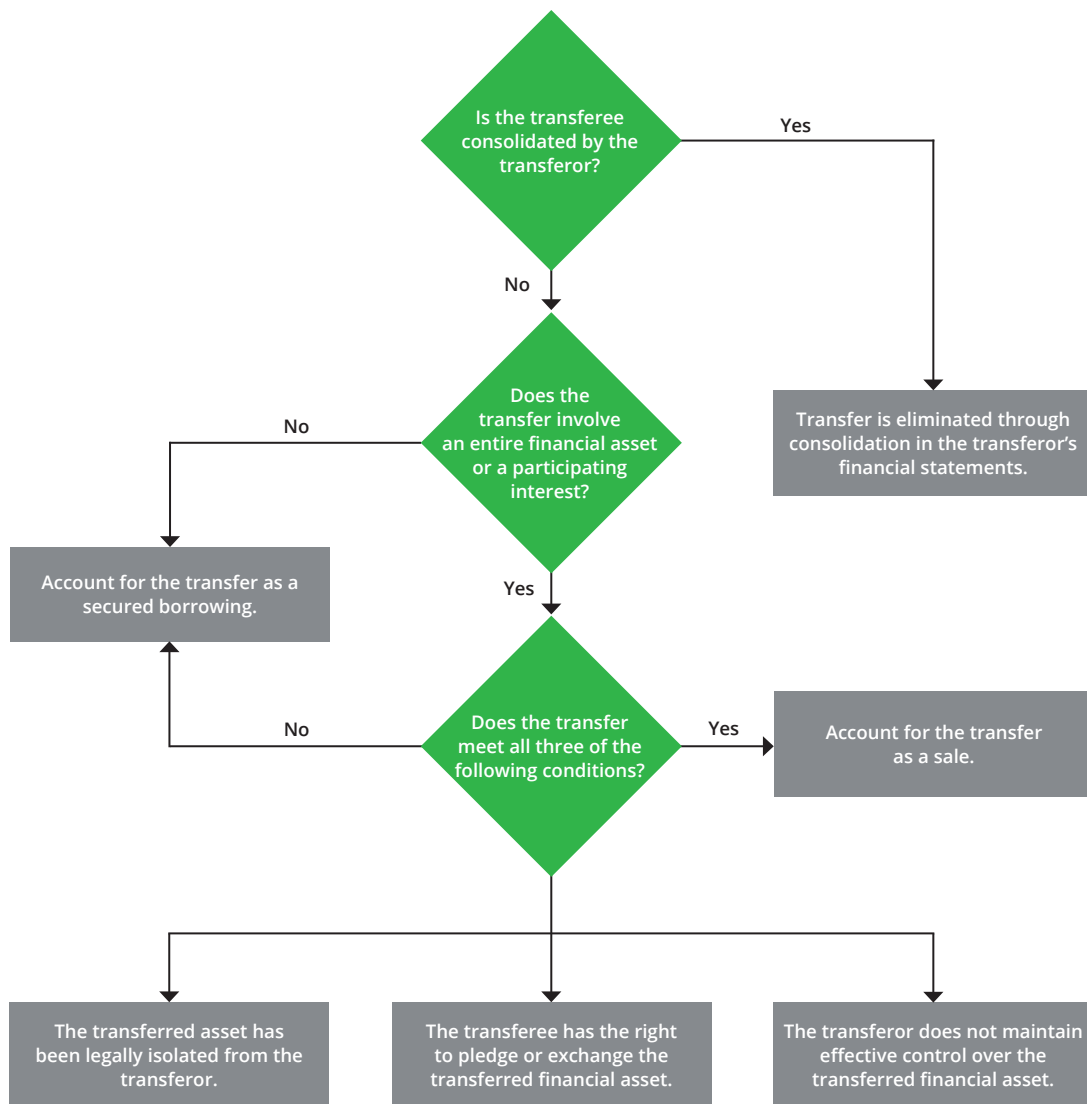
Transfers and Servicing of Financial Assets

Determining whether a transfer of financial assets or servicing rights qualifies as a sale for financial reporting purposes can be time-consuming and complex. An entity must consider both the form and substance of the transfer. As part of such an analysis, the entity would evaluate relevant legal and accounting rules and interpretations and may need to consult legal experts. The outcome of this analysis could significantly affect the classification, measurement, and earnings impact of the transaction as well as the related financial statement ratios. This guidance has not significantly changed for more than a decade, and no changes are expected in the near term. However, in response to stakeholder feedback, the FASB included transfers and servicing of financial assets in its [invitation to comment](#) on its agenda consultation (comments were due by June 30, 2025). In addition, at its March 12, 2026, meeting, the EITF recommended that the FASB add to its technical agenda a project on whether the value attributable to recapture should be included in the measurement of MSRs. Specifically, the EITF suggested that the FASB clarify that “an MSR and recapture be treated as a single unit of account and, therefore, that the fair value measurement of an MSR include the effects of recapture.” For more information about the EITF meeting, see Deloitte’s March 2026 [EITF Snapshot](#). At its May 27, 2026, meeting, the FASB agreed with the EITF’s decisions and added this project to its agenda.

Accounting for Transfers of Financial Assets

The decision tree below illustrates the steps an entity would perform in evaluating whether a transfer of financial assets (e.g., trade receivables, loan receivables, or equity securities) qualifies as a sale for financial reporting purposes.¹

¹ Transfers of derivative assets, including nonfinancial derivative assets subject to ASC 815, are accounted for under ASC 860 and are thus subject to the steps outlined in the decision tree below. See ASC 815-10-40-2 and 40-3 for further details.



For a transfer of financial assets to be accounted for as a sale, the three conditions in ASC 860-10-40-5 must be met. However, before evaluating those conditions, a transferor must reach the following two conclusions to avoid accounting for the transfer as a secured borrowing:

- *The transferor does not consolidate the transferee* — ASC 810 addresses consolidation. Sale accounting can never be achieved for a transfer of financial assets to a consolidated affiliate.
- *The transfer involves an entire financial asset or a participating interest* — If a transfer involves an interest in a financial asset, as opposed to the asset itself, sale accounting can only potentially be achieved if the interest meets the definition of a participating interest or the transferee transfers all interests in the recognized financial asset (e.g., transfers of 100 percent participations). ASC 860 addresses the conditions that an interest must meet to be a participating interest. The application of such guidance can be time-consuming and complex.

An entity that reaches the above two conclusions must evaluate the three conditions for sale accounting in ASC 860. In evaluating these three conditions, an entity would consider both the legal nature and the substance of the transfer. To meet the conditions for sale accounting, the transfer must be a true legal sale. This determination is made by attorneys, not accountants. Even if the transfer meets this legal isolation condition, the transferee must be able to freely pledge or exchange (i.e., sell) the financial asset received (or the beneficial interests received from a securitization entity) and the transferor cannot maintain effective control over the transferred financial asset (e.g., by being able to repurchase it). An entity may need to use significant judgment in evaluating these two conditions.

ASC 860 also addresses the initial and subsequent recognition, measurement, and presentation for a transfer, as well as the related disclosures an entity must provide. The guidance an entity applies will differ depending on whether the transfer is accounted for as a sale or a borrowing.

Accounting Symmetry

The accounting for a transfer as a sale or secured borrowing is generally symmetrical. That is, if the transferor meets the conditions to account for a transfer of financial assets as a sale and therefore derecognizes the transferred financial assets, the transferee accounts for the transfer as a purchase of financial assets. Similarly, if the transferor does not meet the conditions to account for a transfer of financial assets as a sale and reflects the transfer as a secured borrowing (i.e., it does not derecognize the financial assets), the transferee accounts for the transfer as a receivable from the transferor.

Accounting for Servicing Assets and Servicing Liabilities

ASC 860-50 separately addresses the accounting for servicing of financial assets, including transfers of servicing assets and disclosures. The derecognition model for transfers of servicing assets differs from that for transfers of financial assets. However, as with transfers of financial assets, the accounting for a transfer of servicing rights is symmetrical between the transferor and transferee.

Deloitte's Roadmap *Transfers and Servicing of Financial Assets* comprehensively discusses the accounting for transfers and servicing of financial assets, including disclosures, in accordance with ASC 860. Entities may also need to refer to Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest* to determine whether a transferee must be consolidated by a transferor.

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