Case 18-2
Transfer of Financial Assets

Health Provider (the “company”) offers health-care-related services. To reduce administrative obligations and to allow for additional financing options for its patients, the company enters into a health services financing agreement (the “agreement”) with an unrelated third-party financial institution (the “bank”).

Under the agreement, the company’s patients have the option of requesting that the company transfer its receivables to the bank. Once such a request is made, the following would occur:

- The company would transfer the patient’s receivables to the bank.
- The bank would pay the company the balance of the receivables in cash.
- Because the bank would now hold the receivables from the patient, the patient and bank would enter into a low-interest loan agreement to stipulate the repayment terms.

The agreement between the company and the bank contains the following additional provisions:

- Repurchase obligation: the company is required to repurchase the transferred receivables from the bank upon the occurrence of any of the following:
  - There are accounts for which any payment obligation is 60 or more days past due.
  - There are accounts for which the customer disputes liability for any portion of the account.
  - The agreement is terminated.

The company is also permitted to repurchase transferred receivables upon notifying the bank that it desires to do so.

- Termination payment obligation: upon the termination of the agreement, the company is required to repurchase all transferred receivables held by the bank, unless otherwise agreed to in writing. Either party may terminate the agreement as long as 30 days’ notice is given.

- Although it has not yet happened, company management believes that it will receive a “true sale” opinion from its legal counsel regarding the transferred receivables.

- The agreements do not prohibit the bank from transferring the receivables to another party either as collateral for a borrowing or in an outright sale.

Required:

1. Under U.S. GAAP, what FASB Codification subtopic applies to the transfer of receivables between the company and the bank?

2. Should the transfer of the patient receivables from the company to the bank be accounted for as a sale by the company? Why or why not?

3. How should the company account for the transferred receivables?