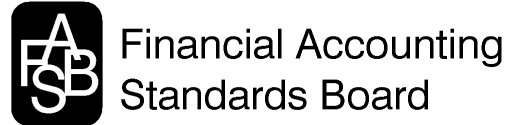


MINUTES



To: Board Members

From: Statement 140 Team
(Cizek, ext. 354)

Subject: Minutes of the May 21, 2008 FASB
Board Meeting: Accounting for Interests Held by the Transferor

Date: May 27, 2008

cc: Golden, MacDonald, Bielstein, Gabriele, Sutay, Posta, Chookaszian, Cospers, Leisenring, Lott, Statement 140 Team, Klimek, Allen, FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topic: Accounting for Interests Held by the Transferor

Basis for Discussion: Board Memorandum No. 89

Length of Discussion: 9:00 a.m. to 9:45 a.m.

Attendance:

Board members present: FASB: Batavick, Crooch, Herz, Linsmeier, Seidman, L. Smith, and Young

Board members absent: none

Staff in charge of topic: Donoghue

Other staff at Board table: FASB: Golden, Zecher, Lusniak, Mayer, Yust, and Cizek

Summary of Decisions Reached

At the May 21, 2008 meeting, the Board discussed how to initially measure interests that a transferor continues to hold following a sale of financial assets. The Board first decided that beneficial interests received by a transferor, in connection with a sale of an entire financial asset to an entity that is not consolidated by the transferor, should be considered proceeds of the sale and should be initially measured at fair value. Secondly, the Board decided that a participating interest in a financial asset that continues to be held by a transferor should be initially measured at its allocated carrying amount in accordance with the existing measurement guidance in paragraph 10 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Objectives of Meeting:

The objective of the meeting was to discuss whether to amend the guidance in Statement 140 for the initial measurement of interests that a transferor continues to hold following a sale of financial assets.

Matters Discussed and Decisions Reached:

Issue 1: Transferor's Beneficial Interest

1. Ms. Donoghue stated that the Board had previously debated whether a transferor's beneficial interest is or is not a new financial asset to the transferor when Statement 140 and FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, were deliberated. Neel Foster, a Board member during the Statement 125 and Statement 140 deliberations, dissented to both documents noting that new assets (rights) received are part of the proceeds of the exchange and thus should be measured at their fair values as they are in all other exchange transactions. In deliberations for the 2005 Exposure Draft, *Accounting for Transfers of Financial Assets*, the Board moved closer to Mr. Foster's position by deciding that a beneficial interest that a transferor receives in a

securitization represents a new asset to the transferor and should be initially measured at fair value.

2. **Staff Recommendation:** The staff recommended that a beneficial interest received by a transferor, in connection with a sale of an entire financial asset to an entity that is not consolidated by the transferor, be considered proceeds of a sale and initially measured at fair value. Ms. Donoghue stated that this recommendation is consistent with recent guidance issued including FASB Statements No. 155, *Accounting for Certain Hybrid Financial Instruments*, and No. 156, *Accounting for Servicing of Financial Assets*, in which the Board concluded that fair value is a more useful and relevant measurement attribute for financial instruments than a measurement attribute based upon historical cost.
3. Ms. Donoghue also stated that often beneficial interests have different cash flows, risk and reward profiles, and economics than the transferred assets. Therefore, the staff recommends that the Board consider that beneficial interests held by the transferor as proceeds represent new assets to a transferor, which should be accounted for according to the economics of the newly created interests.
4. **Board Vote:** Messrs. Batavick, Crooch, Herz, Linsmeier, Smith, and Ms. Seidman voted for the staff recommendation. Mr. Young stated he could not vote on the staff recommendation that beneficial interests received by the transferor be considered proceeds until he better understood the implications of the new consolidation model being developed by the staff. Mr. Young did vote for the staff recommendation that transferor proceeds from a sale should be measured at fair value.
5. **Board Comments:** Mr. Linsmeier agreed with the staff reasoning that a beneficial interest received by a transferor from an entity that it does not consolidate represents a new asset and should be accounted for accordingly.
6. Ms. Seidman stated that the beneficial interest question was simpler to answer now that the concept of a qualifying special-purpose entity (SPE) did not exist in

Statement 140. She acknowledged that the removal of the qualifying SPE concept would put more pressure on consolidation. However, she believes that transferor held beneficial interests received from a non-consolidated entity clearly meets the definition of proceeds, as defined in Statement 140. Messrs. Herz, Batavick, Smith, and Crooch all stated that they also agreed with the staff recommendation.

7. Mr. Linsmeier recommended that the staff not use the term *proceeds* when discussing beneficial interests as he associated that term with cash flows. Ms. Seidman responded that *proceeds* is defined in the glossary to Statement 140 but that terminology in Statement 140, including the term *beneficial interest*, may require a fresh look as a part of the amendment process. Messrs. Herz, Batavick, and Smith stated that in their position the term *proceeds* does not need to be redefined as a part of the short-term project to amend Statement 140.
8. Mr. Young responded that he did not agree with the staff recommendation because of his concerns about the removal of passivity rules associated with the removal of qualifying SPEs. Mr. Young also stated that he would need to understand the amended consolidation model before voting on this issue.
9. Mr. Herz added that he did not feel comfortable about entities receiving gain on sale accounting in all circumstances and agreed with Ms. Seidman that the removal of the qualifying SPE concept puts significant pressure on the consolidation model. However, Mr. Herz felt comfortable agreeing with the staff recommendation on this issue at this time and noted that it did not rely on the consolidation criteria, but, rather, on whether or not an entity is consolidated.

Issue 2: Transferor's Participating Interest

10. Ms. Donoghue stated that a transferor must transfer a pro rata portion of the original financial asset to meet the definition of a participating interest and accordingly achieve sale accounting treatment for the transferred portion. In this scenario, the staff view is that the underlying financial asset has not moved from the transferor. Therefore, using parallel logic, the portions retained by the transferor do not appear

to be new assets that warrant remeasurement as there has been no change to the risk profile or cash flows (other than pro rata) of these assets.

11. **Staff Recommendation:** The staff recommends that a participating interest, which continues to be held by a transferor, should be initially measured by the allocation of the carrying amount consistent with the existing measurement guidance in Statement 140.
12. **Board Vote:** Messrs. Batavick, Herz, Smith, and Ms. Seidman voted for the staff recommendation. Messrs. Crooch, Linsmeier, and Young voted that a participating interest in a financial asset that continues to be held by a transferor should be initially measured at fair value.
13. **Board Comments:** Mr. Smith stated that as the portion maintained has not been sold by the transferor, it would seem inappropriate to remeasure these assets. Ms. Seidman agreed with the staff recommendation on the same basis as Mr. Smith though she believes that the participating interest definition could have been broader than what the Board decided.
14. Mr. Young responded that the transferor may have new assets with the retained portions as they could have different liquidity or other characteristics than what the transferor originally held. Messrs. Crooch and Young disagreed with the staff recommendation and instead believe that the retained portions should be measured at fair value. Mr. Linsmeier agreed with Messrs. Crooch and Young but did not object to the staff recommendation.

Follow-up Items:

None

General Announcements:

Mr. Herz informed the public audience that the Board added a project to its agenda to clarify the accounting for acquired intangible assets subsequent to initial recognition and measurement. Additionally, the Board decided to hold an annual meeting that issues

technical corrections for recently issued and amended standards instead of addressing each correction on an individual basis throughout the year. This decision arose from an agenda discussion of how to address technical corrections resulting from the issuance of FASB Statement No. 141 (revised 2007), *Business Combinations*.