



Board Meeting Handout

ACCOUNTING FOR TRANSFERS OF FINANCIAL ASSETS

June 4, 2008

PURPOSE

The purpose of this meeting is for the Board to decide whether to require a minimum third party investment in transferred financial assets for sale accounting in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and whether to continue an exception that requires the reclassification of mortgage loans to securities and the recognition of related servicing assets and liabilities when a transfer does not meet the requirements for sale accounting..

ISSUE 1: MINIMUM THIRD PARTY INVESTMENT IN A TRANSFERRED FINANCIAL ASSET

In the 2005 FASB Exposure Draft, *Accounting for Transfers of Financial Assets*, the Board decided to remove the requirement in paragraph 9 of Statement 140 in which consideration other than beneficial interests in the transferred financial assets must be received in exchange to account for the transfer as a sale. This change was consistent with the view that a transfer of an entire financial asset, which meets the criteria in paragraphs 9(a)–9(c), is a sale of the entire financial asset and that any interest received by the transferor would be proceeds of the sale. However, these decisions were based on the assumption that transactions that issue beneficial interests are either (1) affected through the use of a qualifying special-purpose entity (QSPE), which requires that at least 10 percent of the beneficial interests should be issued to third parties and is exempt from consolidation, or (2) that the transaction must be to a third party.

With the Board's recent decision to eliminate the QSPE, transferees that are variable interest entities would now be subject to consolidation under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. As a result, the requirement that at least 10 percent of the beneficial interests should be held by parties that are not consolidated by the transferor will be eliminated.

Q1. Should Statement 140 have a rule that sets a minimum amount of beneficial interests that must be held by parties other than the transferor and its consolidated affiliates for a transferor to account for a transfer as a sale?

ISSUE 2: GUARANTEED MORTGAGE SECURITIZATION EXCEPTION

A guarantee mortgage securitization (GMS) is a securitization of mortgage loans that includes a substantive third party guarantee. In many GMSs, a transferor transfers loans to a QSPE, a guarantee is provided to the QSPE by a third party, and the transferor receives 100 percent of the

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beneficial interests in the QSPE. If the transferor reclassifies the loans as securities in accordance with FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, and classifies those securities as trading or available-for-sale in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the transferor is required to recognize a servicing asset or liability initially at fair value pursuant to Statement 140, as amended by FASB Statement No. 156, *Accounting for Servicing of Financial Assets*. The transferor usually sells some or all of the resulting securities over time to third parties.

In Statement 156, the Board continued to permit the recognition of a servicing asset or liability for a GMS if the GMS is affected through a QSPE and the resulting securities are classified as trading or available-for-sale, even though the transferor receives 100 percent of the beneficial interests in the securitized loans and the transaction does not meet the requirements for sale accounting. However, Statement 156 also changed the initial measurement methodology for servicing assets from an allocation of a previous carrying amount to fair value that often results in reporting a gain on sale based upon the creation of a marketable servicing asset.

With the Board's recent decision to eliminate the QSPE, the accounting for GMS also must be reconsidered; that is, whether the reclassification of loans to securities and the recognition of a servicing asset or liability should be permitted, regardless of the results of the consolidation analysis or whether or not to permit that accounting only if the GMS trust is not consolidated by the transferor.

Q2. Does the Board want to continue to provide an exception that permits a transferor to reclassify interests received in GMSs as securities pursuant to paragraph 6 of Statement 65 if the transfer does not qualify as a sale pursuant to Statement 140?

Q3. Does the Board want continue to provide an exception for GMS transactions that requires a transferor to recognize a servicing asset under Statement 140, as amended by Statement 156, even if the transfer does not qualify as a sale?



Board Meeting Handout

**ACCOUNTING FOR TRANSFERS OF FINANCIAL ASSETS AND
CONSOLIDATION OF VARIABLE INTEREST ENTITIES**

June 4, 2008

PURPOSE

The objective of this meeting is to discuss enhancements to the existing disclosure requirements relating to transfers of financial assets within the scope of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and variable interest entities within the scope of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

BACKGROUND

The staff prepared a summary of suggested disclosure enhancements based on input received from financial statement users (including representatives of Investors Technical Advisory Committee (ITAC)) and its review of existing SEC disclosure requirements, existing or contemplated disclosure requirements of other standard setters (including the IASB), Senator Reed's letter to the FASB, and various other studies and articles on the topic of perceived gaps in the disclosure requirements in general. The staff compared the suggested disclosure enhancements to the relevant existing disclosure requirement(s) in U.S. GAAP, if any. As a result of that analysis, the staff identified areas where the Board should consider enhancements to the disclosures relating to transfers of financial assets and variable interest entities.

ISSUE 1: DISCLOSURE OBJECTIVE

The staff believes that the disclosure requirements in both Statement 140 and Interpretation 46(R) should begin with a statement as to the overall the objective of the disclosure requirements.

Q1. Does the Board agree with the staff's recommendation to provide an overall objective of the disclosure requirements to Statement 140 and Interpretation 46(R)?

ISSUE 2: AGGREGATION OF SIMILAR TRANSFERS AND SIMILAR VARIABLE INTERESTS

The staff believes that an aggregation principle should be given that provides guidance as to whether and how to aggregate disclosures for similar transfers and similar variable interests for the purposes of applying the disclosure requirements in Statement 140 and Interpretation 46(R).

Q2. Does the Board agree with the staff's recommendation to include guidance on aggregating similar transfers in Statement 140 and on aggregating similar variable interests in Interpretation 46(R)?

ISSUE 3: AMENDMENTS TO THE STATEMENT 140 DISCLOSURE REQUIREMENTS

The staff recommends that the amendments to the disclosures required in Statement 140 should include the following:

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1. Additional information about the calculation of the gain or loss recognized as a result of a transfer of financial assets that has been accounted for as a sale
2. Additional information about the transferor's continuing involvement, regardless of whether the transfer was accounted for as a sale or as a secured borrowing and regardless of when the initial transfer occurred
3. Qualitative and quantitative information about liquidity, guarantee, and other commitments provided by third parties related to the transferred financial assets
4. Certain other amendments to Statement 140.

Q3. Does the Board agree with the staff recommended amendments to the disclosures required by Statement 140?

ISSUE 4: DEFINITION OF CONTINUING INVOLVEMENT

The staff believes that the term *continuing involvement* should be explicitly defined in the glossary to Statement 140 in order to clarify the proposed requirements to disclose information related to a transferor's continuing involvement with transferred financial assets. The staff proposes the following definition:

Any further involvement of any kind with transferred financial assets, other than standard representations and warranties that the transferred financial assets met the delivery requirements under the arrangements. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee obligations, agreements to repurchase or redeem, derivative instruments, pledges of collateral, participation in future cash flows, retained subordinated interests, and restrictions on interests that continue to be held by the transferor.

Q4. Does the Board agree with the staff's recommendation to provide a definition of *continuing involvement* in the Statement 140 glossary?

ISSUE 5: PARAGRAPH 17(C) OF STATEMENT 140

Paragraph 17(c) of Statement 140 currently contains the phrase "after the effective date of Statement 125." The staff understands that this disclosure, which was carried over from FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, was primarily written to address the restrictions on assets that were set aside in an in-substance defeasance. The staff believes that this disclosure should be applied broadly to all assets within the scope of Statement 140 that are set aside solely for satisfying a specific obligation (for example, transfers that are accounted for as secured borrowings).

Q5. Does the Board agree with the staff's recommendation to clarify that the disclosure required in paragraph 17(c) of Statement 140 apply to all transfers of financial assets and not just restrictions on assets that were set aside in an in-substance defeasance?

ISSUE 6: METHODOLOGY USED IN DETERMINING FAIR VALUE

Paragraphs 17(h)(1) and 17(i)(1) of Statement 140 currently provide examples of the methodology by which an interest that continues to be held by the transferor is measured at fair value: "... (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques)." The staff does not believe this methodology is necessary following the issuance of FASB Statement No. 157, *Fair Value Measurements*.

Q6. Does the Board agree with the staff's recommendation to eliminate the explicate references to the methodology used in determining fair value that are currently found in paragraphs 17(h)(1) and 17(I)(1)?

ISSUE 7: FOOTNOTE 10 OF STATEMENT 140 EXCEPTION FOR SERVICING

Footnote 10 of Statement 140 currently provides an exception from the disclosures required by paragraph 17(i)(4) if the transferor's only continuing involvement is servicing. Based on constituent feedback and the difficulty in defining servicing, the staff proposes that footnote 10 be deleted from the Statement.

Q7. Does the Board agree with the staff's recommendation to eliminate footnote 10 of Statement 140, which provides an exception for the disclosures required by paragraph 17(i)(4) if the only continuing involvement is servicing?

ISSUE 8: AMENDMENTS TO THE INTERPRETATION 46(R) DISCLOSURE REQUIREMENTS

The staff recommends that the amendments to the disclosures required in Interpretation 46(R) should include the following:

1. The enterprises methodology and process for applying the Interpretation, including information about significant judgments, factors, and assumptions
2. The primary factors considered that cause a change in how a variable interest entity is reported by the enterprise and the impact to the enterprise's financial statements between periods
3. Whether the enterprise has provided financial or other support to the variable interest entity that it was not contractually required to provide, including the type and amount of financial support and the primary reasons for providing the voluntary support
4. The significant risks of the variable interest entity
5. The terms of arrangements that could require the enterprise to provide financial support to the variable interest entity, including events or circumstances that could expose the enterprise to a loss
6. The carrying amount and classification of the assets and liabilities relating to the variable interests recognized in the statement of financial position, including the nature of any restrictions on the ability of the enterprise to use assets it has recognized
7. Qualitative and quantitative information about liquidity, guarantee, and other commitments to the variable interest entity by third parties
8. The fair value of the variable interest entity's financial assets and liabilities that are consolidated
9. Information about how the maximum exposure to loss is determined
10. Disclosure of the enterprise's expected loss and how it is determined
11. To encourage, but not require, disclosures to be provided in a tabular format
12. Certain other amendments to Interpretation 46(R).

Q8. Does the Board agree with the staff's recommended amendments to the disclosures required by Interpretation 46(R)?

ISSUE 9: SIGNIFICANT VARIABLE INTEREST ENTITIES

The staff believes there is diversity in practice about how to assess whether an enterprise has a significant variable interest. Some companies assess whether the variable interest is significant by evaluating whether the (1) variable interest is significant to the variable interest entity, (2) variable interest is significant to the enterprise, or (3) both. The staff believes that an enterprise should provide the disclosures required for a significant variable interest entity under both scenarios. Accordingly, the staff recommends clarifying this in paragraph 6 of Interpretation 46(R).

Q9. Does the Board agree with the staff's recommendation to clarify that the disclosures for a significant variable interest entity should be applied when the variable interest is significant to the variable interest entity or when the variable interest is significant to the enterprise?

ISSUE 10: EXCEPTION TO THE INTERPRETATION 46(R) DISCLOSURES FOR ENTERPRISES THAT ALSO HOLD A MAJORITY VOTING INTEREST

Paragraph 23 of Interpretation 46(R) currently states that a primary beneficiary that holds a majority voting interest in the variable interest entity, as described in footnote 17, is not required to provide the required disclosures for a primary beneficiary. The staff recommends that this exception and the related footnote be deleted.

Q10. Does the Board agree with the staff's recommendation to remove the exception from providing the disclosures required by paragraph 23 of Interpretation 46(R) if the primary beneficiary also holds a majority voting interest?

ISSUE 11: WHEN A SIGNIFICANT VARIABLE INTEREST HOLDER'S INVOLVEMENT BEGAN WITH A VARIABLE INTEREST ENTITY

Paragraph 24(a) of Interpretation 46(R) currently requires an enterprise with a significant variable interest in a variable interest entity to disclose when its involvement with the variable interest entity began. The staff does not believe this disclosure requirement currently provides meaningful information to users and thus proposes deleting it.

Q11. Does the Board agree with the staff's recommendation to remove the requirement for significant variable interest holders to disclose when their involvement began with the variable interest entity?



**Board Meeting Handout
NFP Endowments & UPMIFA
June 4, 2008**

PURPOSE

1. The purpose of this Board meeting is to deliberate the substantive issues raised in respondents' comment letters received on the proposed FASB Staff Position (FSP) FAS 117-a, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*.
2. The issues to be addressed are as follows:
 - Issue 1: Net Asset Classification for Donor-restricted Endowment Funds Under UPMIFA
 - a. The amount of the endowment fund to be classified as permanently net assets
 - b. The accounting treatment for underwater endowments
 - c. The net asset classification of the portion of the endowment fund not classified as permanently restricted net assets (temporarily restricted vs. unrestricted net assets)
 - Issue 2: Disclosure Requirements for All Endowment Funds
 - Issue 3: Requests for Additional Guidance
 - Issue 4: Effective Date
 - Issue 5: Post-Implementation Review.
3. As of May 8, 2008, comment letters were received from 45 respondents, summarized below.

Number and Type of Respondents (by Occupation/Role)	
Type of Respondent	Number
Public Accounting	
Big Four Firm	4
Non-Big Four Firm	11
Group/State Association	5
State CPA Board	1
Total Public Accounting	21
Preparer	
University	9
Preparer- Other	3
Preparer Group	5
Total Preparer	17
Legal	
Academic (Legal)	1
Regulator	1
Regulator Group	2
Attorney Individual	1
Total Legal	5
Other	
Academic (Accounting)	1
Other Individual	1
Total Other	2
Total Respondents	45

NET ASSET CLASSIFICATION

- The introduction of UPMIFA and its elimination of historic dollar value (HDV) and insertion of language similar to that in the Maine and Utah laws have heightened the dissatisfaction among a broader group of constituents with the existing guidance and net asset classification scheme, which the proposed FSP largely reaffirmed. That UPMIFA language states that assets of donor-restricted endowment funds are considered “donor restricted assets” until appropriated for expenditure by a governing board. In light of the feedback received, this meeting will address the two fundamental issues that together encompass the aspects of the guidance to which respondents raised their primary objections:

a. Since UPMIFA takes a “fund as a whole” approach to endowment fund spending and management, should the net asset classification mirror that by treating a donor restricted endowment fund homogeneously, classifying it in one net asset class (permanently restricted net assets, temporarily restricted net assets, unrestricted net assets, or a new net asset class)? If the answer is no, and a piece is singled out for characterization as permanently restricted net assets, should permanently restricted net assets be allowed to decrease in so-called “underwater” situations?

b. If a piece of a donor-restricted endowment fund is classified apart from the remainder of the fund, as permanently restricted net assets, is the guidance in EITF Topic D-49 still appropriate for classifying the remainder of a fund subject to UPMIFA?

5. The following table summarizes feedback received from respondents regarding the net asset classification guidance in the proposed FSP:

Respondent Profile		Net Asset Classification			
Type of Respondent	Total	Response Category			
		S	S/m	O	NC
Public Accounting					
Big Four Firm	4	1	3		
Non-Big Four Firm	11	4	1	2	4
Group/State Association	5	4	1		
State CPA Board	1	1			
Total Public Accounting	21	10	5	2	4
Preparer					
University	9	4		4	1
Preparer- Other	3	1			2
Preparer Group	5			4	1
Total Preparer	17	5	0	8	4
Legal					
Academic (Legal)	1			1	
Regulator	1		1		
Regulator Group	2		1	1	
Attorney Individual	1			1	
Total Legal	5	0	2	3	0
Other					
Academic (Accounting)	1			1	
Other Individual	1		1		
Total Other	2	0	1	1	0
Total Respondents	45	15	8	14	8
S = Support S/m=Support with modification O = Objects NC= no comment or not clear					

Amount to be Classified as Permanently Restricted Net Assets

6. Several respondents to the proposed FSP objected to its net asset classification guidance and, more broadly, expressed concerns about an incongruity between the underlying net asset classification framework established in Statement 117 and the legal considerations required for endowments under UPMIFA. Some respondents cited the “fund as a whole” approach of UPMIFA as an argument for classifying donor-restricted endowment funds entirely in one net asset class, either a new net asset class or a redefined permanently restricted net asset class. To those respondents, this approach seems to be more in synch with the way in which the UPMIFA statute is written. Such a model would also appear to be simpler for preparers.
7. While such an approach might be worth exploring as a longer-term alternative (more on this in paragraph 25 below), the staff has significant concerns about moving off of the Board’s view expressed in the proposed FSP (View 4, that some portion, but generally not all, of a donor restricted endowment fund should be classified as permanently restricted net assets) at this time. The primary focus of general purpose external financial statements is on the users of those statements—in the case of not-for-profit organizations, especially donors (and their representatives, such as regulators) and creditors. That accounting and reporting focus does not necessarily coincide with the focus from a legal perspective. For example, during its research leading to the proposed FSP, the staff interviewed representatives of two credit rating agencies. Recently, the staff again interviewed representatives of one of those agencies. Both of those credit rating agencies stressed the importance of knowing the portion of endowment funds that is currently or ultimately useable to pay debt and the portion that is not. Financial ratios used by the those agencies and others distinguish between expendable net assets (that is, unrestricted and temporarily restricted, excluding amounts associated with physical plant) and permanently restricted net assets.¹

¹ For example, Moody’s uses one ratio that compares expendable net assets to direct debt and another ratio that compares expendable net assets to operating expenses.

8. While the UPMIFA statute eliminates a distinction of original gift amount from the rest of the fund, the staff thinks it may be too early to predict how spendability of that amount under UPMIFA will actually be interpreted and enforced in the various states. While there may not have been significant legal controversy on this point under UMIFA, the elimination of HDV has apparently raised concerns to a very different level, and created much more significant uncertainty, especially in the regulatory community. Letters from regulators generally stressed the importance of knowing the amount of the original gift as a key data point for those charged with enforcing UPMIFA. (Some preparers highlighted its importance as a benchmark in administering funds under UPMIFA.) Furthermore, in other discussions with regulators, the staff learned that because of powers reserved for the judiciary in some states and case law precedents they cited, it isn't clear at this time whether organizations could actually spend below original gift amount without court and/or attorney general involvement and approval in all jurisdictions. In light of these concerns, the staff recommends that not-for-profit organizations continue to be required to classify a portion of the fund, as determined by the organization (governing board) based on its interpretation of the law—likely, the original gift amount (HDV) in most jurisdictions—as permanently restricted net assets.

Question 1—Does the Board agree that organizations should continue to classify a portion of a donor-restricted endowment fund as permanently restricted net assets, as determined by an organization's (governing board's) interpretation of relevant law?

Underwater Funds

9. If a portion of a fund is classified as permanently restricted net assets, the other relevant question raised by respondents is whether that amount should be allowed to decrease in instances in which the fair value of the investment assets is less than the amount classified as permanently restricted net assets. As with UMIFA, such a so-called “underwater” situation could result from investment losses; however, what has changed under UPMIFA is that it could also result from, or be exacerbated by,

organizational spending decisions under the new spending flexibility provided by UPMIFA.

10. Respondents raised two significant objections:

- a. Some respondents indicated that reducing temporarily restricted or unrestricted net assets, rather than permanently restricted net assets, in such circumstances was misleading, since there was no affirmative obligation to restore the endowment fund to its original gift value.
- b. A couple of respondents suggested that proposed accounting treatment, which reaffirmed the Board's existing guidance in Statement 124, would undermine UPMIFA by arbitrarily deterring current spending in economically difficult situations in which UPMIFA indeed intends to allow for such current spending.

11. The “no affirmative obligation” argument is not fundamentally different from similar arguments posed concerning UMIFA at the time that Statement 124 was deliberated (as noted in paragraph 68 of that Statement's basis for conclusions). That argument does not represent new information that should sway the Board from its previous decision. There may not be an affirmative obligation to immediately restore the endowment fund to its original gift value, even if the organization were to be liquidated at that time, but under the assumption that the organization is a going concern, the staff thinks that absent judicial relief (*cy pres* action) the permanent fiduciary duty remains in perpetuity. That is, no release from restriction has occurred.

12. As to the contention that retaining the Statement 124 underwater guidance would undermine the short-term flexibility and other benefits afforded by UPMIFA, the staff thinks it is important to distinguish net asset classification for the purpose of external reporting from internal budgetary and cash management decisions. In drafting the final FSP, the staff would better clarify/emphasize that the net asset classes relate to the **accountability/fiduciary duty** stemming from donor-imposed restrictions and the release/satisfaction of those restrictions. Some restrictions may not require that current funds be kept on hand at all times. As discussed during the October 31, 2007, Board meeting, the staff views an organization's choice to avail itself of the flexibility afforded by the UPMIFA statute to continue to spend from endowment funds while in “underwater” situations as an internal borrowing—if, as discussed above, such spending could indeed occur without court and/or attorney general involvement. That

spending/borrowing does not change the accountability for a fund of permanent duration.

Question 2—Does the Board agree that, consistent with Statement 124, the accounting treatment for underwater funds should be reflected as a reduction of unrestricted or temporarily restricted net assets (rather than as a reduction permanently restricted net assets)?

Temporarily Restricted Versus Unrestricted Net Asset Classification

13. In contrast to the underwater guidance question, the comment letters provided important new information concerning the appropriateness of applying the guidance in EITF Topic D-49, *Classifying Net Appreciation on Investments of a Donor-Restricted Endowment Fund*, to the portion of an endowment fund that is not classified as permanently restricted. Respondents argued that, unlike UMIFA, UPMIFA does not merely require the exercise of ordinary business prudence by a governing board in making decisions about how much to appropriate for expenditure in a given year. They stress that UPMIFA requires a more specific burden of prudence—to appropriate an amount for expenditure only after carefully weighing the seven factors enumerated in UPMIFA’s spending guidelines. They also point to UPMIFA’s creation of a rule of construction that places an organization’s governing board in the shoes of a donor. Thus, in the absence of a purpose restriction on the use of the appreciation of an endowment fund, they contend that the language in section 4(a) of UPMIFA considers the donor restriction on the appreciation to lapse only when and to the degree that a governing board, effectively in the shoes of a donor, appropriates an amount for expenditure after carefully weighing the required seven factors.

14. The staff agrees that unlike UMIFA, UPMIFA does indeed extend a donor-restriction to the portion of the fund that is not classified in permanently restricted net assets. In the staff’s view, UPMIFA creates a time restriction that should result in the amount in question being classified as temporarily restricted net assets. The staff believes that enough constraints have been put around the governing board in its appropriation decision that classification as temporarily restricted net assets seems to be, on

balance, the better answer—most faithful representation of the underlying circumstances.

15. If the Board agrees with staff on this matter, the guidance concerning the optional rebuttable presumption of imprudence in section 4(d) of UPMIFA would become unnecessary and would be removed from the FSP.

Question 3—Does the Board agree that UPMIFA extends a donor-restriction to the portion of an endowment fund that is not classified in permanently restricted net assets and therefore, that portion should be classified as temporarily restricted net assets, rather than unrestricted net assets?

DISCLOSURES

16. The disclosure requirements that were provided in paragraphs 12(a-e) and 13 in the proposed FSP would require:
 - a. A description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds.
 - b. A description of the organization’s policy(ies) for the appropriation of endowment assets for expenditure (its endowment spending policy(ies)).
 - c. A description of the organization’s endowment investment policies. The description shall include the organization’s return objectives and risk parameters; how those objectives relate to the organization’s endowment spending policy(ies); and the strategies employed for achieving those objectives.
 - d. The composition of the organization’s endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds. In addition, the organization shall indicate the cumulative amount of investment return, if any, contained in the permanently restricted net asset class because of the organization’s interpretation of relevant law, beyond that required by explicit donor stipulations.
 - e. A reconciliation of the beginning and ending balance of the organization’s endowment, in total and by net asset class, including, at a minimum, the following line items (as applicable): investment return, separated into investment income (for example, interest, dividends, rents) and net appreciation or depreciation of investments; contributions; amounts appropriated for expenditure; reclassifications; and other

changes. In addition, the organization shall indicate how much, if any, of the additions of investment return to permanently restricted net assets are the result of the organization's interpretation of relevant law, beyond that required by explicit donor stipulations.

- f. In addition, paragraph 13 of the proposed FSP, would require the organization to disclose its planned appropriation for expenditure, if known, for the year following the most recent period for which the organization presents financial statements.

Disclosure of Interpretation of UPMIFA (Paragraph 12(a)), and Disclosure of Spending Policy (Paragraph 12(b))

17. There was little disagreement among respondents concerning the disclosures in paragraphs 12(a) and 12(b) of the proposed FSP (interpretation of law and spending policy, respectively). Those disclosures received overwhelmingly support and the staff recommends they be retained.

Disclosure of Investment Policy (Paragraph 12(c))

18. The disclosure in paragraph 12(c) (investment policy) drew the most mixed response, as described in the comment letter summary.

Respondent Profile		p12(c)- Investment Policy			
Type of Respondent	Total	Response Category			
		S	S/m	O	NC
Public Accounting					
Big Four Firm	4	2		2	
Non-Big Four Firm	11	2	2	2	5
Group/State Association	5	3		2	
State CPA Board	1	1			
Total Public Accounting	21	8	2	6	5
Preparer					
University	9	4		1	4
Preparer- Other	3	1		2	
Preparer Group	5	3			2
Total Preparer	17	8	0	3	6
Legal					
Academic (Legal)	1	1			
Regulator	1	1			
Regulator Group	2	1			1
Attorney Individual	1				1
Total Legal	5	3	0	0	2
Other					
Academic (Accounting)	1	1			
Other Individual	1			1	
Total Other	2	1	0	1	0
Total Respondents					
	45	20	2	10	13

19. After weighing the responses, the staff recommends retaining the disclosure because of the important link between investment and spending policies for endowments. During the drafting of the final FSP, the staff will work with the external reviewers to see if tweaks to other aspects of paragraph 12(c) may be desirable.

Tabular Disclosures (Paragraph 12(d) and 12(e))

20. Respondents generally supported the tabular disclosures in paragraphs 12(d) and 12(e) (net asset composition and changes therein), with the exception of the supplemental disclosure of the amount added to permanently restricted net assets because of governing board interpretation of the law. The staff now thinks that disclosing such details puts an unnecessary cloud on the reported amount and recommends that that information not be required. The staff will also consider various other refinements to the disclosures suggested by respondents during its drafting of the final FSP.

Disclosure of Planned Appropriation (Paragraph 13)

21. Very few respondents supported the disclosure in paragraph 13 (next year’s planned appropriation, to the extent known), primarily because of concerns about requiring prospective information.

Respondent Profile		p13- Planned Appropriation			
Type of Respondent	Total	Response Category			
		S	S/m	O	NC
Public Accounting					
Big Four Firm	4			3	1
Non-Big Four Firm	11	1		5	5
Group/State Association	5	2		3	
State CPA Board	1	1			
Total Public Accounting	21	4	0	11	6
Preparer					
University	9	1		5	3
Preparer- Other	3			3	
Preparer Group	5				5
Total Preparer	17	1	0	8	8
Legal					
Academic (Legal)	1				1
Regulator	1				1
Regulator Group	2	1			1
Attorney Individual	1				1
Total Legal	5	1	0	0	4
Other					

Academic (Accounting)	1				1
Other Individual	1			1	
Total Other	2	0	0	1	1
Total Respondents	45	6	0	20	19

22. The staff thinks those concerns get into issues that go well beyond the basic objectives of this FSP and would be best left to a project that more comprehensively addressed disclosure of prospective information. Thus, the staff recommends dropping the disclosure requirement in paragraph 13.

Question 4—Does the Board agree with the staff recommendations regarding the disclosure requirements for the final FSP?

REQUESTS FOR ADDITIONAL GUIDANCE

23. While the staff will be considering the other issues raised by respondents as part of the drafting of the final FSP, the staff recommends that the Board specifically reject two requests made by respondents as being outside of the scope of this FSP. AcSEC’s request to drop the disclosure requirement for investment expenses in paragraph 24 of Statement 117 would be more appropriately considered as part of a comprehensive set of changes to authoritative GAAP (the Codification) that the Board may be asked to clear in the next 1-2 years in connection with the ongoing major revision of the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*. Similarly, any net asset classification issues concerning community foundations noted by the Council on Foundations noted (CL #19) that are not directly connected with UPMIFA, if addressed, should be dealt with outside of this FSP project.

Question 5—Does the Board agree with the staff recommendation regarding these requests for additional guidance?

EFFECTIVE DATE

24. Based on significant concerns raised by virtually all respondents, the staff recommends that the effective date for the FSP be deferred to fiscal years ending after December 15, 2008. The staff notes that a six-month deferral would roughly coincide

with the effective date of the new IRS Form 990, which will require organizations to distinguish board-designated endowment funds from other funds. The staff also recommends that the final FSP, like the proposed FSP, permit early application. Organizations in states for which UPMIFA is already effective would need to be able to apply the guidance in the FSP, many of them for their June 30, 2008 financial statements.

Question 6—Does the Board agree with the staff recommendation regarding the effective date for the final FSP?

POST-IMPLEMENTATION REVIEW

25. As noted above, a number of respondents recommended either the creation of a new net asset class or an overhaul of the permanently restricted net asset class. The staff believes that much research is needed, especially with users, to determine whether the current net asset classification framework as it applies to donor-restricted endowment funds could benefit from such a longer-term project. The staff also thinks that it would be instructive to see how UPMIFA is actually interpreted and enforced, and the FSP's guidance is applied, over the next year or two. (In addition, some valuable information about financial statement display could be learned from the financial statement presentation project and any additional thinking that may be done in that regard by the staff and others with respect to not-for-profit organizations.) Thus, the staff recommends that the Board commit to doing a post-implementation review in 1-2 years.

Question 7—Does the Board agree with the staff recommendation that the Board commit to a conducting a post-implementation review in 1-2 years?