



Board Meeting Handout

ACCOUNTING FOR TRANSFERS OF FINANCIAL ASSETS

May 21, 2008

PURPOSE

The purpose of this meeting is to provide the Board with information to decide whether and how to amend the guidance in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, regarding the initial measurement of interests that a transferor continues to hold following a sale of financial assets.

ISSUE 1: TRANSFEROR'S BENEFICIAL INTEREST

The Board previously debated the issue of whether a transferor's beneficial interest is or is not a new financial asset to the transferor when Statement 140 and its predecessor, FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, were deliberated. The Board concluded that all interests that a transferor continues to hold represent a portion of a transferred financial asset and should be treated as retained interests and be reported at an allocation of the previous carrying amount. In its deliberations of the 2005 FASB Exposure Draft, *Accounting for Transfers of Financial Assets*, the Board changed its conclusion relating to beneficial interests received by a transferor in exchange for a transfer of an entire financial asset to an entity that is not consolidated by the transferor. The Board decided that a beneficial interest received by a transferor as a result of a sale is a new financial asset to the transferor and should be measured at fair value.

Q1. Should 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 the sale if the transfer meets the requirements for sale accounting?

Q2. Should a beneficial interest received by a transferor as proceeds of a sale be initially measured at fair value?

ISSUE 2: TRANSFEROR'S PARTICIPATING INTEREST

In preparation for the 2005 Exposure Draft, the Board concluded that when a portion of a financial asset is transferred in a transaction that meets the requirements for sale accounting, the portion of the financial asset that continues to be held by the transferor is not a new financial asset and has not been changed in a manner that warrants remeasurement. The Board decided to continue the existing guidance on initial measurement in Statement 140 that requires that any interest that a transferor continues to hold should be measured at an allocation of its previous carrying amount.

Q3. Should a participating interest in a financial asset that continues to be held by a transferor be initially measured at its allocated carrying amount in accordance with the existing measurement guidance in paragraph 10 of Statement 140, as amended by FASB Statement No. 156, *Accounting for Servicing of Financial Assets*?