



Financial Accounting  
Standards Board

**To:** Board Members

**From:** Statement 140 and Interpretation 46(R)  
Teams  
(Yust, ext. 442)

**Subject:** Minutes of the June 11, 2008 Board  
Meeting: Statement 140 and  
Interpretation 46(R)—Comment Period,  
Effective Date, and Transition **Date:** June 19, 2008

**cc:** Golden, MacDonald, Bielstein, Donoghue, Lusniak, Mayer, Zecher, Barker,  
Roberge, Nickell, Wyatt, C. Smith, Cizek, Reager, Gabriele, Glotzer,  
Mechanick, Sutay, Posta, Chookaszian, Cosper, Leisenring, Stoklosa,  
Proestakes, Lott, 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: Statement 140 and Interpretation 46(R)—Comment  
Period, Effective Date, and Transition

Basis for Discussion: Board Memorandum No. 90

Length of Discussion: 3:10 to 4:00 p.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: Donoghue, Mayer

Other staff at Board table: FASB: Golden, Roberge, Zecher, Nickell, Wyatt,  
Lusniak, C. Smith, Cizek, and Yust

### Summary of Decisions Reached

At the June 11, 2008 meeting, the Board discussed the comment period, transition, and effective date for FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. The Board decided to require a 60-day comment period and hold a roundtable to allow constituents to provide comments on the proposed amendments to Statement 140 and Interpretation 46(R).

Next, the Board decided that the amendments to Statement 140 should be applied in fiscal years beginning after November 15, 2008, (effective date) on a prospective basis (for example, a calendar year-end entity would apply the amendments to Statement 140 for new transactions completed after January 1, 2009). However, qualifying special-purpose entities (SPEs) that existed prior to the effective date would be subject to the consolidation guidance in fiscal years beginning after November 15, 2009.

The Board decided that the amendments to Interpretation 46(R) should be applied in fiscal years beginning after November 15, 2008, (effective date) on a limited retrospective basis, except for qualifying SPEs that existed as of the effective date. The amendments to the Interpretation would be applied to qualifying SPEs that existed prior to the effective date in fiscal years beginning after November 15, 2009. For example, a calendar year-end entity would apply the Interpretation 46(R) amendments to qualifying SPEs that existed as of December 31, 2008, in the entity's 2010 first quarter financial statements or its December 31, 2010, financial statements if quarterly financial statements are not required. The entity would apply the Interpretation 46(R) amendments to all other variable interest entities in its 2009 financial statements.

Transition disclosures would be provided for existing qualifying SPEs during the one-year deferral period.

In the event that the final amendments to the Interpretation are not effective for fiscal years beginning after November 15, 2008, the Board asked the staff to prepare separate disclosures for inclusion in the proposed Interpretation 46(R) Exposure Draft, based off of the disclosures approved at the June 4, 2008 Board meeting.

The Board also discussed whether private entities should have a different effective date than public entities. The Board agreed to include a question in the notice to recipients.

The Board authorized the staff to proceed to draft the amendments to Interpretation 46(R) and Statement 140 for vote by written ballot.

#### Objectives of Meeting:

The objective of the meeting was to discuss the comment period, effective date, and transition guidance for the proposed Exposure Drafts to amend Statement 140 and Interpretation 46(R). The objective of the meeting was met.

#### Matters Discussed and Decisions Reached:

##### **Issue 1: Comment Period**

1. **Staff Recommendation:** The staff recommended a 60-day comment period for the amendments to both Statement 140 and Interpretation 46(R) to allow affected entities to prepare thorough comments that will facilitate consistent application of the amendments.
2. **Board Vote:** The Board unanimously voted to support the staff's recommendation and requested that the staff hold a roundtable to also solicit constituent feedback.
3. **Board Comments:** Mr. Batavick questioned the staff's timeframe for issuing the Exposure Drafts, and Mr. Golden stated that an aggressive timeline for the issuance is late July. However, Mr. Herz stated that at least 60 days was necessary to obtain constituents' feedback and stated that a roundtable also should be held.

## Issue 2: Effective Date and Transition

4. Mr. Mayer noted that the amendments to Statement 140 would require consideration of the guidance in Interpretation 46(R). As such, the staff believed that the effective dates should be the same for both pronouncements.
5. **Staff Recommendation:** Mr. Mayer stated that the effective dates for the amendments should be effective as soon as possible. However, due to the significant amendments to Statement 140 and Interpretation 46(R), the staff believed that there was a significant risk that a reporting entity would be unable to properly apply the amendments for completed transfers and existing variable interest entities by the first reporting period after November 15, 2008. Accordingly, Mr. Mayer stated that the Board could choose between (a) a single effective date for the amendments to both pronouncements or (b) a dual effective date based on when the transfer was completed or the variable interest entity was created. The staff recommended a single effective date for fiscal years beginning after November 15, 2009, or a dual effective date for which new transfers of financial assets and new variable interest entities would be accounted for pursuant to the amended guidance in fiscal years beginning after November 15, 2008, and previous transfers of financial assets and previously created variable interest entities would be accounted pursuant to the amended guidance in fiscal years beginning after November 15, 2009.
6. **Board Vote:** Messrs. Batavick, Crooch, Herz, Linsmeier, Smith, and Young voted to expose dual effective dates whereby the amendments to Statement 140 would be applied prospectively in fiscal years beginning after November 15, 2008, and the amendments to Interpretation 46(R) would be applied on a limited retrospective basis in fiscal years beginning after November 15, 2008, except for qualifying SPEs that existed as of the effective date. The amendments related to the removal of the exception from consolidation of qualifying SPEs that existed prior to the effective date would be applied in fiscal years beginning after November 15, 2009. Ms. Seidman voted to require a single effective date for the accounting changes in fiscal

years beginning after November 15, 2009, with certain disclosures being effective in fiscal years beginning after November 15, 2008.<sup>1</sup>

7. **Board Comments:** Mr. Linsmeier stated that he generally preferred a single effective date. However, he noted that a dual effective date may be necessary based on when the final amendments are issued. Mr. Smith noted that the Board needed information from preparers to decide the final transition and effective date, so he recommended the Board expose a dual effective date and request information about the cost and ability to apply the amended guidance within a short period of time for new and existing structures.
8. Ms. Seidman believed that it would be unrealistic to expect a reconsideration of all existing vehicles under the revised guidance in Interpretation 46(R) as of January 1, 2009. As a result, she believed a deferral would be necessary for existing variable interest entities in Interpretation 46(R) and wanted to avoid a complicated transition to account for new structures under the amended accounting guidance. As an alternative, Ms. Seidman proposed deferring the new accounting guidance for one year and having a separate transition and effective date for the disclosures so they could be effective as early as year-end.
9. Ms. Donoghue noted that the information needed to provide the disclosures was, in many cases, the same as the information required to apply the new accounting changes. As a result, Ms. Seidman stated that the disclosures could be provided under the existing Interpretation 46(R) guidance during the one-year deferral period. Mr. Roberge noted that it would be difficult for preparers to provide disclosures under one accounting model while preparing for a new accounting model. Mr. Mayer also noted that it would be difficult to obtain all of the information for the disclosures by the first quarter in 2009 due to systems issues and internal control issues.

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<sup>1</sup> In the Board discussions, the Board used January 1 to illustrate the effective date guidance in the Board meeting handout.

10. Mr. Linsmeier questioned whether the Board should consider an implementation in mid-year if it was already going to consider having a mixed attribute model for new and existing structures. Ms. Seidman noted that users indicated they were not supportive of mid-year accounting changes.
11. Mr. Golden stated that if the Board deferred the accounting changes, the Board should consider permitting early adoption. Ms. Smith noted that some users actually expressed that they would support early adoption in this limited case. She also stated that the transition disclosures would be crucial to get the information out to users as soon as possible.
12. Mr. Mayer stated that another alternative would be to take the disclosures that were previously voted on by the Board and could reasonably be applied and include them in a separate FASB Staff Position, along with additional transition disclosures, which could have a separate and shorter comment period. This would allow preparers to have additional time to begin gathering the information needed to apply the enhanced disclosures for existing structures under existing U.S. GAAP as soon as the first quarter of 2009.
13. Mr. Herz proposed accelerating guidance that removes reconsideration events to require a reconsideration of the consolidation assessment due to changes in market conditions. However, Mr. Golden noted that one of the reasons the Board previously voted to remove reconsideration events is because the Interpretation 46(R) model was changing to a primarily qualitative assessment. Mr. Smith also noted that any changes that resulted from removing reconsideration events might be changed again when the entity begins to apply the amended Interpretation 46(R) guidance.
14. Mr. Batavick and Ms. Seidman noted that another benefit of going to a single effective date for fiscal years beginning on January 1, 2010 fiscal years would give the staff the ability to make potential modifications in the model to incorporate work performed by the IASB in an effort to make the consolidation models more similar.

15. Mr. Young believed that the Board needed to act as quickly as possible to restore confidence and transparency to the market. As a result, he proposed a dual effective date whereby all structures, other than existing qualifying SPEs, would be required to apply the amended guidance and disclosures as of January 1, 2009. For existing qualifying SPEs, Mr. Young would give a deferral with transition disclosures. Mr. Smith stated that it would be a tremendous undertaking to require non-qualifying SPE structures to apply the amended guidance as early as 2009 fiscal years. However, Mr. Young noted that Interpretation 46(R) would still have the practicality exception if an entity was unable to obtain the information needed to apply the new model. Mr. Linsmeier also noted that non-qualifying SPEs were already running expected loss calculations, so he believed those entities might already have most of the information needed to apply the new consolidation model.
16. Mr. Linsmeier noted that without accelerating the disclosures, the Board would run the risk of not having new disclosures effective as of January 1, 2009. Mr. Golden proposed including separate disclosures in the Exposure Draft for Interpretation 46(R) that could be effective as early as January 1, 2009. Mr. Smith agreed and stated that if the constituents commented that they could not apply the amended accounting guidance as of January 1, 2009, the constituents should comment on which disclosures could be applied as of the start of the year.
17. Mr. Batavick asked if a separate transition was needed for private companies. Mr. Golden stated that both Exposure Drafts would include a question in the Notice to Recipients to address this matter.
18. Ms. Donoghue asked the Board if the staff could proceed with drafting the Exposure Drafts of the proposed amendments to Interpretation 46(R) and Statement 140 for vote by written ballot. The Board unanimously agreed with the staff's recommendation.

Follow-up Items:

None.

General Announcements:

None.