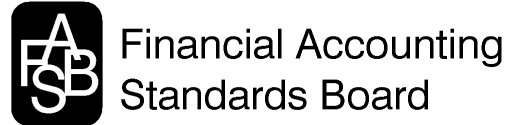


MINUTES



To: Board Members

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

Subject: Minutes of the June 11, 2008 Board Meeting: Accounting for Interests Held by the Transferor **Date:** June 16, 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—Accounting for Interests Held by the Transferor

Basis for Discussion: Board Memorandum No. 89

Length of Discussion: 2:30 p.m. to 3:10 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

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

Summary of Decisions Reached

At the June 11, 2008 meeting, the Board decided not to add a specific minimum requirement for the amount of beneficial interests that must be held by parties other than the transferor and its consolidated affiliates, for a transferor to meet the sale accounting conditions for transfers of financial assets.

Objectives of Meeting:

The objective of the meeting was to discuss 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*. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

Issue 1: Minimum Third Party Investment in A Transferred Financial Asset

1. Ms. Donoghue introduced the issue by explaining that as a result of the elimination of the qualifying special-purpose entity (QSPE) concept, passivity rules associated with these vehicles also would be eliminated. One of these rules required that a third party hold 10 percent or more of the beneficial interests associated with transferred financial assets for a transfer to be eligible for sale accounting treatment. The staff wanted to be sure the Board was comfortable with the elimination of that requirement.
2. **Staff Recommendation:** The staff recommended that the amendment to Statement 140 not include a specific minimum requirement for the amount of beneficial interests that must be held by parties other than the transferor and its consolidated affiliates in order for a transfer to meet the sale accounting conditions. Ms. Donoghue outlined the three main reasons the staff made this recommendation. First, the amended isolation, effective control, and consolidation guidance in Statement 140 and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, would make it unlikely for a transferor

to achieve sale accounting treatment for a transferor if it held 100 percent of the interest in the transferred assets. Secondly, the staff did not recommend that a bright line be included in the amendment and that a 10 percent threshold was not meaningful. Lastly, the threshold had only applied to transfers to QSPEs and not to transfers to non-QSPE entities. The staff felt it would be unnecessary to impose this requirement on all transfers to non-QSPEs as issues with a minimum third party investment threshold had not been identified as a practice problem by constituents.

3. **Board Vote:** Messrs. Batavick, Crooch, Herz, Linsmeier, and Smith and Ms. Seidman voted not to add a specific minimum requirement for the amount of beneficial interests that must be held by parties other than the transferor and its consolidated affiliates in order for a transfer to meet the sale accounting conditions. Mr. Young voted to require that a majority of beneficial interests must be held by parties other than the transferor and its consolidated affiliates in order for a transfer to meet the sale accounting conditions.
4. **Board Comments:** Ms. Seidman commented that an unintended consequence of the amended Statement 140 and Interpretation 46(R) models is that a 100 percent third party guarantor would likely consolidate an entity holding transferred financial assets even in the situation where a transferor took back 100 percent of the interests in that entity. Therefore, the transferor would still record the assets on its books because the transfer would likely not meet the sale accounting requirements, but the guarantor would consolidate the entity holding the transferred financial assets. Ms. Zecher responded that, in this situation, the entity would likely record a receivable for the assets on its books and an obligation to pass on the cash flows to the third party beneficial interest holders.
5. Mr. Young stated his position that the party holding a majority of the interests in financial assets should be considered the party in control. Therefore, as a backstop to the amended consolidation model, Mr. Young believes that the Board should require that a third party hold a majority of beneficial interests in transferred financial assets for a transfer to be eligible for sale accounting treatment.

Follow-up Items: None.

General Announcements: None.