



Grant Thornton



LETTER OF COMMENT NO. 25

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Re: Proposed FSP FAS 140-e and FIN 46(R)-e

Grant Thornton LLP appreciates the opportunity to comment on Proposed FASB Staff Position (FSP) FAS 140-e and FIN 46(R)-e, "Disclosures about Transfers and Servicing of Financial Assets and Interests in Variable Interest Entities."

We support the FASB's decision to require enhanced disclosures for public entities/enterprises until more substantive amendments to the accounting and disclosure requirements of FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation 46(revised December 2003), *Consolidation of Variable Interest Entities*, are finalized and become effective. However, we are concerned that some of the proposed disclosure requirements are unclear or too broad and therefore could clutter the notes with disclosures of limited usefulness, impose an undue burden on the preparer, or require information that the reporting enterprise cannot obtain. The "Specific comments" section of this letter further describes our concerns.

Even if the Board addresses our concerns, the effort to compile the new disclosure information could be substantial for many reporting entities. We think that the proposed effective date would not provide sufficient time for compliance with the new requirements. Therefore, we recommend that that final FSP be effective for the first interim reporting period beginning after the final FSP is issued.

Specific comments

Significant variable interest

The proposed FSP would greatly expand the disclosure requirements for an enterprise with a significant variable interest in a variable interest entity. If the interest is not significant to the variable interest entity itself, regardless of whether it is significant to the reporting enterprise, it is unlikely that the enterprise would have the ability to obtain the information necessary

- To determine whether or not an entity is a variable interest entity and therefore within the scope of Interpretation 46(R) and the FSP's disclosure requirements

- To provide some of the disclosures that would be required under the proposed FSP

Obtaining such information about an entity is often difficult even for enterprises that hold interests that are significant to the entity.

Therefore, we recommend clarifying that the significance of a variable interest should be determined in relation to the variable interest entity, not in relation to the reporting enterprise, for the disclosures required under Interpretation 46(R) and the proposed FSP.

We also recommend that the FASB provide the same clarification for the proposed disclosure requirements for a nontransferor enterprise that holds a significant variable interest in a qualifying special purpose entity (QSPE). An ordinary investor that holds an interest in a QSPE that is not significant to the QSPE would not be in a position to know whether any actions were taken that could jeopardize the entity's QSPE status, which could change the disclosure requirements for that entity. In fact, the entity's QSPE status might have been irrelevant to such investors. In addition, it is not clear why such investors should provide the proposed disclosures, which could imply that any and all investments in a QSPE are inherently riskier than an investment in an entity that is not a QSPE.

Appendix C disclosure requirements for Interpretation 46(R)

Definition of sponsor

We do not agree with the Board's conclusion in paragraph E14 of the proposed FSP that it is not necessary to provide a definition of the term *sponsor* because that term is used elsewhere in accounting literature. Other literature that uses the term *sponsor* tends to be more narrowly focused than the proposed disclosures under Interpretation 46(R), which would be applied by a wide variety of reporting enterprises and to a wide variety of entities. In paragraph E14, the Board has indicated that the determination of whether an enterprise is the sponsor of an entity is a matter of judgment based on all relevant facts and circumstances, but has provided no further guidance.

Proposed paragraph 22C

Proposed paragraph 22C would establish new disclosure requirements for primary beneficiaries, holders of significant variable interests, and sponsors that hold any variable interest in a variable interest entity. We are concerned about the following provisions of proposed paragraph 22C:

- Proposed paragraph 22C(a) would require disclosures about methodology and significant assumptions used to determine whether or not the reporting enterprise is the primary beneficiary of a variable interest entity, including "whether a different assumption or judgment could have reasonably been made that would result in a different conclusion." We believe that such a requirement would be onerous and might not be operational.

The analysis required to apply Interpretation 46(R) can be difficult and complex, especially if the analysis is quantitative. There are many separate judgments and assumptions made to reach a conclusion, and the universe of different assumptions and judgments that could have been made is vast. The determination of whether any such alternatives, combinations of such

alternatives, or different methodologies could have produced different results could require extensive, additional analyses not previously performed when making the original determination. Furthermore, the primary beneficiary determination might have been made several years ago based on fair value assumptions and inputs as of the assessment date. It may not be practicable at this time to identify and assess what alternative fair value assumptions would have been reasonable at the original assessment date.

Therefore, we recommend that the Board not adopt the proposed disclosure requirements in paragraph 22C(a) and the related disclosure objective in proposed paragraph 22A(a).

- Proposed paragraph 22C(b) would require certain disclosures “if a variable interest entity had been reported differently in the current financial statements (including the notes to the financial statements) than in the most recent financial statements (for example, the variable interest entity was previously consolidated and is not currently consolidated).”

Notwithstanding the example provided, “reported differently” in the notes to the financial statements could also refer to a simple reorganization of the financial statement note disclosures or the inclusion of additional disclosures. For example, the adoption of this FSP would result in some reporting differences in the notes to the financial statements. Therefore, because “reported differently” could be interpreted so broadly, the proposed requirement could result in disclosures that would not be particularly useful to financial statement users. We recommend that the Board clarify this disclosure requirement to narrow its focus to the types of changes the Board intends to address.

Proposed paragraph 23, footnote 11

Currently, a primary beneficiary that also holds a majority of the voting equity interests of a variable interest entity is not required to provide the disclosures for the entity that Interpretation 46(R) would otherwise require. The proposed FSP would modify and limit this exception for the expanded public enterprise disclosures. One of the proposed conditions that must be met to qualify for this exception is that the entity’s assets can be “used for purposes other than the settlement of the entity’s obligations.” We do not support adding that proposed condition to this disclosure exception for the following reasons:

- A consolidated subsidiary that is an operating company might have some operating assets that are collateral for certain debt obligations of the subsidiary, regardless of whether or not the subsidiary is a variable interest entity. The proposed disclosures for a variable interest entity could distort the significance of the entity to the enterprise because similar disclosures are not required for functionally similar subsidiaries that are not variable interest entities.
- It is not clear whether the disclosure exception would apply if some, but not all, of the entity’s assets can be used for purposes other than the settlement of the entity’s obligations.
- The proposed limitation on the disclosure exception might require some enterprises to retrospectively determine whether an entity is a variable interest entity for the sole purpose of providing the enhanced disclosures. Some enterprises that hold a majority voting equity

interest in an entity might not have determined whether that entity was a variable interest entity because it was apparent that the reporting enterprise would be the primary beneficiary if the entity were a variable interest entity. In that case, the determination of whether the entity was a variable interest entity would not have previously affected the enterprise's accounting or reporting for that entity.

Aggregation of disclosures

Currently, paragraph 25 in Interpretation 46(R) permits the aggregation of information about similar variable interest entities "if separate reporting would not add material information." The proposed FSP would eliminate the guidance in paragraph 25 for public enterprises and would instead permit the aggregation of disclosures for similar variable interest entities, unless separate reporting of each transfer "would not add useful incremental information to financial statement users" without reference to materiality. Paragraph E12 of the proposed FSP's Basis for Conclusions explains that the Board decided to enhance the aggregation principles because "in some cases the application of the aggregation principle in Interpretation 46(R) did not result in meaningful information." Appendixes B and D of the proposed FSP also would prohibit the aggregation of disclosures if separate reporting would provide "useful incremental information to financial statement users."

We believe the Board should clarify the relationship between "material information" and "useful incremental information to financial statement users." Is it the Board's intention to establish a new threshold for financial reporting that is below the level of materiality? If not, we suggest that the Board use the term "material" rather than the proposed phrase "useful incremental information to financial statement users." FASB Concept Statement 2, *Qualitative Characteristics of Accounting Information*, and SEC Staff Accounting Bulletins both provide guidance for preparers and auditors on how to assess materiality. In addition, the FASB includes a materiality box in its Statements of Financial Accounting Standards. Concepts Statement 2 defines materiality as

The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement

On a conceptual basis, it is not clear how information below the level of materiality could be relevant to financial reporting. However, if the Board has decided that materiality is no longer the appropriate threshold for financial reporting, as paragraph E12 of the proposed FSP seems to indicate, then the Board should provide a better explanation of the conceptual basis for the new threshold as well as additional guidance on how a preparer should assess the usefulness of incremental information to financial statement users. Otherwise, we believe that it may be difficult for a preparer or auditor to conclude that disclosures about similar entities or similar assets would ever meet the proposed threshold for aggregation.

Duplicate paragraph numbers

To avoid confusion about which paragraphs of Interpretation 46(R) would be authoritative after the final FSP is adopted, we recommend that the FSP avoid using the same paragraph number for two different paragraphs.

Appendix A of the proposed FSP would add a paragraph 16A to Statement 140 and paragraphs 22A and 22B to Interpretation 46(R). The proposed amendments would refer public entities/enterprises to the disclosure requirements in Appendixes B, C, and D, while clearly indicating that the existing disclosure requirements in paragraph 17 of Statement 140 and in paragraphs 23 to 26 of Interpretation 46(R) would continue to apply to nonpublic entities/enterprises.

However, Appendix B presents the proposed disclosure requirements of Statement 140 for public entities as paragraphs 16A (with different text than in Appendix A), 16B, 16C, and 17 (with different text than in the current paragraph 17 of Interpretation 46(R), which would continue to be effective for nonpublic enterprises.) Similarly, Appendix C presents the proposed disclosure requirements of Interpretation 46(R) for public enterprises as paragraphs numbered 22A and 22B (both with different text than in Appendix A) and paragraphs numbered 22C— 26 (with different text than in the current paragraphs 23— 26 of Interpretation 46(R), which would continue to be effective for nonpublic enterprises.)

We suggest that Appendixes B and C not be formatted as amendments to the existing disclosure paragraphs in Statement 140 or Interpretation 46(R) because the existing disclosure requirements would continue to apply to nonpublic entities. That is, Appendixes B and C should not use paragraph numbers that are already used in Appendix A or for guidance that continues to apply to nonpublic entities/enterprises. In addition, the Board should clarify that Appendixes F and G show changes to disclosure requirements for public entities *as if* the existing disclosure requirement paragraphs were amended. Our specific recommendations are illustrated in the Appendix to this letter.

We appreciate the opportunity to comment on the proposed FSP and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact Mark Scoles, Partner, Accounting Principles Group, at 312.602.8780.

Very truly yours,

/s/ Grant Thornton LLP

Appendix

Drafting suggestions to address duplications of paragraph numbers

As discussed in our comments on the proposed FSP, we recommend that the FSP avoid using the same paragraph numbers to refer to different text. The following suggested revisions to paragraphs in the proposed FSP illustrate how such duplication could be eliminated.

7. Appendix A amends Statement 140 to require ~~provides amendments to the disclosure requirements for public entities subject to the disclosure requirements of Statement 140 and requires a public entity to provide the disclosures included in accordance with~~ Appendix B of this FSP. ...

9. Appendix A amends Interpretation 14(R) to require ~~provides amendments to disclosure requirements for public enterprises subject to the disclosure requirements of Interpretation 46(R), as amended by this FSP, and requires a public enterprise to provide the disclosures included in accordance with~~ Appendix C of this FSP. In addition, Appendix A amends the scope of the disclosure requirements of Interpretation 46(R) to require a sponsor that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest) to provide certain disclosures....

11. Appendix A amends Interpretation 46(R) to require ~~provides amendments to the disclosure requirements of Interpretation 46(R) and requires~~ a public enterprise that is a nontransferor enterprise that holds a significant variable interest in a qualifying SPE to provide the disclosures included in Appendix D of this FSP... .

B1. This appendix provides the following enhanced disclosure requirements of Statement 140 for public entities as required by this FSP:

B216A. The principal objectives of the disclosures required by paragraph B5 17 are to provide users of the financial statements with an understanding of: [The remainder of paragraphs and paragraph references in Appendix B should be renumbered accordingly.]

C1. This appendix provides the following enhanced disclosure requirements of Interpretation 46(R) for public entities as required by this FSP:

C2 22A. The principal objectives of the disclosures required by paragraphs C3–C6 22B–26 are to provide users of financial statements with an understanding of: [The remainder of the paragraphs and paragraph references in Appendix C should be renumbered accordingly.]

F1. This appendix highlights how the new disclosure requirements for public entities differ from the existing requirements in paragraph 17 of Statement 140, which remain effective for nonpublic entities. Changes to disclosure requirements for public entities subject to the Statement 140 disclosure requirements are shown as if they were additions to, or amendments of, the existing text in paragraph 17 of Statement 140, as follows: [Added text is underlined and deleted text is struck out.]

a. Paragraphs 16BA–16DC are added as follows:

G1. This appendix highlights how the new disclosure requirements for public enterprises differ from the existing requirements in paragraphs 23–26 of Interpretation 46(R), which remain effective for nonpublic enterprises. Changes to disclosure requirements for public enterprises subject to the Interpretation 46(R) disclosure requirements are shown as if they were additions to, or amendments of, the existing text in paragraphs 23–26 of Interpretation 46(R), as follows: [Added text is underlined and deleted text is struck out.]

a. Paragraphs 22GA–22FG are added as follows: