

FASB STAFF POSITION

No. SOP 07-1-1

Title: Effective Date of AICPA Statement of Position 07-1

Date Posted: February 14, 2008

Objective

1. This FASB Staff Position (FSP) delays indefinitely the effective date of AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. The delay is intended to allow the Board time to consider a number of significant issues relating to the implementation of SOP 07-1.

Background

2. SOP 07-1 was issued on June 11, 2007, and is effective for financial statements issued for fiscal years beginning on or after December 15, 2007, with early application encouraged. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide, *Investment Companies*. The SOP also provides guidance for determining whether investment company accounting should be retained by a parent company in consolidation or by an equity method investor.

3. In preparing to implement SOP 07-1, constituents have identified significant issues that need to be resolved by the Board to ensure compliance with the provisions of SOP 07-1 by its effective date. They have asked for a delay in the effective date of SOP 07-1 so the Board can consider those implementation issues and whether to modify SOP 07-1.

<p>All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.</p>

FASB Staff Position

Scope

4. **This FSP applies to an entity subject to the provisions of SOP 07-1.**

Amendment to SOP 07-1

5. **This FSP delays indefinitely the effective date of SOP 07-1.**

6. SOP 07-1, as issued, is effective for financial statements issued for fiscal years beginning on or after December 15, 2007, with early application encouraged. An entity that early adopted SOP 07-1 before December 15, 2007, is permitted but not required to continue to apply the provisions of the SOP. An entity that did not early adopt SOP 07-1 before December 15, 2007, shall not adopt the SOP, with the following exception. If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements.

7. Paragraph 56 of SOP 07-1 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

The effective date of this SOP is delayed indefinitely. An entity that early adopted the SOP before December 15, 2007, is permitted but not required to continue to apply the provisions of the SOP. No other entity may adopt the provisions of this SOP, with the following exception. If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements. ~~The provisions of this SOP are effective for fiscal years beginning on or after December 15, 2007. Earlier application is encouraged.~~

8. This FSP does not amend FSP FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies*. FSP FIN 46(R)-7 remains effective only upon initial adoption of SOP 07-1.

9. EITF Issue No. 85-12, “Retention of Specialized Accounting for Investments in Consolidation,” and EITF Topic No. D-74, “Issues Concerning the Scope of the AICPA Guide on Investment Companies,” remain effective for entities that have not adopted SOP 07-1.

Effective Date and Transition

10. This FSP shall be effective as of December 15, 2007.

11. If an entity that early adopted the provisions of SOP 07-1 voluntarily rescinds its early adoption as permitted by this FSP, that entity shall account for that change according to the provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections*.

The provisions of this FSP need not be applied to immaterial items.

This FSP was adopted by the affirmative votes of five members of the Financial Accounting Standards Board. Messrs. Smith and Young dissented.

Messrs. Smith and Young dissent from the issuance of this FSP primarily because they do not believe the issues identified in preparing to implement SOP 07-1 will be faced by all entities within the scope of the SOP and because they believe the guidance in the SOP is useful in terms of evaluating whether a company falls within the scope of the AICPA Audit and Accounting Guide, *Investment Companies*. Furthermore, the indefinite deferral granted in this FSP will continue to prohibit real estate entities (that otherwise meet the scope provisions of the Guide) from being included in its scope. Messrs. Smith and Young believe the presentation required in applying the Guide (that is, measuring investments at fair value) provides more useful information to investors in such entities and the SOP would have permitted those entities to be considered for inclusion in the scope of the Guide.

Mr. Young believes that real estate investment companies, if allowed to do so, would likely follow the early adopters of SOP 07-1. While Mr. Young believes it would have been preferable to require the adoption by those entities, the FSP eliminates the ability of any further adoption of SOP 07-1. The resulting inconsistency between early adopters and other similar entities undermines comparability.

Finally, Mr. Smith objects to “an indefinite deferral” because he believes it is an indication that the Board is not dedicated to resolving the application issues that have been raised and that, as a practical matter, the SOP will never become effective. Mr. Smith believes the SOP addresses important issues related to whether it is appropriate for a

parent company to retain investment company accounting followed by a subsidiary in the parent company's financial statements. This is one of the fundamental issues the Board asked the AICPA's Accounting Standards Executive Committee (AcSEC) to address when AcSEC was asked to take on the project. He believes it is inappropriate for the Board to delay addressing those issues indefinitely.

Members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Thomas J. Linsmeier
Leslie F. Seidman
Lawrence W. Smith
Donald M. Young