

MINUTES



Financial Accounting
Standards Board

To: Board Members

From: Statement 140 Amendment Team
(Stell, ext. 211)

Subject: Minutes of the October 15, 2003 Board Meeting **Date:** October 21, 2003

cc: Bielstein, Smith, Petrone, Leisenring, Project Team, Mahoney,
Thompson, Vincent, Sutay, Gabriele, Swift, Polley, FASB Intranet
(e-mail)

Topic: Qualifying Special-Purpose Entities:
Effective Date and Transition
Provisions, Scope and Comment Period
for the Exposure Draft, and
Miscellaneous Issues

Basis for Discussion: Board memorandum 14 dated
October 6, 2003; and Board
memorandum 15 dated October 7, 2003

Length of Discussion: 2:30 p.m. to 3:00 p.m.

Attendance:

Board members present: Herz, Trott, Schipper, Batavick, Crooch,
Seidman, and Schieneman

Board members absent: None

Staff in charge of topic: Lott and Lusniak

Other staff at Board table: Smith, Donoghue, and Stell

Outside participants: None

Summary for ACTION ALERT:

The Board discussed certain matters related to a revised Exposure Draft of proposed amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and reached the following decisions:

1. The revised Exposure Draft should include all of the proposed amendments to Statement 140 and would be issued for a comment period of approximately 45 days. The Board will decide at a later date whether to hold a public hearing or roundtable.
2. The final Statement would be effective for all transfers of financial assets occurring after the end of the first fiscal quarter (first fiscal year for privately held enterprises) that begins after the issuance of that Statement.
3. The proposed changes to paragraph 9(a) of Statement 140 would be applied to any existing arrangements immediately upon issuance of the final Statement if a transferor, its affiliates, or its agents have any remaining obligations related to the transferred assets.
4. Qualifying special-purpose entities (SPEs) that roll over beneficial interests would continue to be considered qualifying until six months after the effective date of the final Statement, or until the qualifying SPE has rolled over a majority of the beneficial interests that were outstanding at the effective date of the final Statement, whichever is later.
5. Transition provisions for formerly qualifying SPEs affected by the proposed amendments related to equity securities would be similar to those set forth in paragraph 25 of Statement 140. However, existing qualifying SPEs that hold equity securities *and* roll over (reissue) beneficial interests would apply the transition provisions related to rollovers of beneficial interests.
6. Transition provisions for formerly qualifying SPEs affected by the proposed amendments related to the isolation of transferred assets from the transferor would be similar to those in paragraph 25 of Statement 140. Formerly qualifying SPEs that were both affected by those proposed amendments *and* rolling over (reissuing) beneficial interests would apply the transition provisions related to rollovers of beneficial interests.

7. Accounting for undivided interests in financial assets sold before the proposed changes to accounting for beneficial interests become effective would not be adjusted unless the entity that sold those interests sells additional interests in the same assets.
8. Any effect of applying the proposed Statement to transactions reported in previously issued financial statements would be reported as a cumulative effect of an accounting change as of (a) the date the final Statement becomes effective, (b) the date when a qualifying SPE becomes disqualified, or (c) the date when an entity issues additional undivided interests, whichever is applicable. Restatement of previously issued financial statements would not be permitted.
9. Any agreement provided in connection with a transfer of financial assets should be considered in determining whether the transfer complies with the isolation criterion set forth in paragraph 9(a) even if it is not entered into at the time of the transfer.
10. Secondary market trading by a transferor in beneficial interests of a qualifying SPE would not be considered to be a rollover. Obligations of the transferor to purchase beneficial interests from holders should be considered in determining the isolation of transferred assets.

Matters Discussed and Decisions Reached:

The following paragraphs summarize the discussion at the October 15, 2003 Board meeting. The discussion is grouped by topic.

Revised Exposure Draft

The Board discussed whether to issue a revised Exposure Draft that includes all of the proposed amendments to Statement 140 or to issue a final Statement for some of the amendments proposed in the first Exposure Draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, and a revised Exposure Draft for other amendments. Board members unanimously agreed to

issue a revised Exposure Draft that includes all of the proposed amendments to Statement 140.

The Board agreed that the length of the comment period for the revised Exposure Draft would be approximately 45 days but will decide at a later date whether to hold a public hearing or roundtable.

Effective Date and Transition Provisions

The Board unanimously agreed with the staff's recommendation that the final Statement be effective for all transfers of financial assets occurring after the end of the first fiscal quarter (first fiscal year for privately held enterprises) that begins after the issuance of that Statement. For example, it would apply to transfers after June 30, 2004, for calendar year companies if the final Statement were issued during the first calendar quarter of 2004.

The Board discussed transition provisions and decided that transition should be less stringent than proposed in the Exposure Draft. Many existing arrangements that resulted from prior transactions are difficult to change because Statement 140 required that they be difficult to change. The one area in which it did not make the transition less stringent related to the proposed changes to the isolation criterion in paragraph 9(a). That change involved only emphasizing an existing requirement in paragraph 27.

The Board accepted the staff recommendations with one exception. Ms. Seidman pointed out that qualifying SPEs that are affected by either the addition of paragraph 9(d) (which addresses transferor obligations to beneficial interest holders) or the prohibition of equity instruments may also be affected by the provisions affecting qualifying SPEs that roll over beneficial interests. Therefore, the transition for the rollover requirement should apply to those entities. The Board agreed. The details of its decision are described in the Summary for Action Alert.

Reporting the Effects of Transition

The Board decided that any effect on transactions reported in previously issued financial statements would be reported as a cumulative effect of an accounting

change as of (a) the date the final Statement becomes effective, (b) the date when a qualifying SPE becomes disqualified, or (c) the date when an entity issues additional undivided interests. Restatement of previously issued financial statements would not be permitted.

Other Matters

The Board discussed two additional issues that arose in drafting the revised Exposure Draft and made the decisions described in items 9 and 10 in the Summary of Action Alert.

The Board directed the staff to begin the ballot process, and six members stated that they expected to support the revised Exposure Draft. One Board member (LFS) indicated that she would provide the Board and staff members with an alternative view regarding the amendments related to the accounting for undivided interests.

Follow-up Items:

None.

General Announcements:

None.