



Board Meeting Handout

PROPOSED FSP FIN 46(R)-d, “APPLICATION OF FASB INTERPRETATION NO. 46(R) TO INVESTMENT COMPANIES”

February 7, 2007

PURPOSE

At today’s meeting, the Board will redeliberate issues relating to the proposed FASB Staff Position (FSP) FIN 46(R)-d, “Application of FASB Interpretation No. 46(R) to Investment Companies.” Specifically, the Board will consider whether the staff should proceed to a draft of a proposed FSP for vote by written ballot.

BACKGROUND

At the November 1, 2006 Board meeting, the Board decided to proceed with exposure of the proposed FSP. The proposed FSP would amend paragraph 4(e) of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to extend the current scope exception to encompass all investment companies subject to the AICPA Accounting and Audit Guide, *Investment Companies*.

The exposure period ended on December 22, 2006. The staff reviewed 8 comment letters submitted by constituents. The staff outlined the content of these letters and noted that, in general, the tone of the responses was supportive, though some constituents recommended editorial changes in wording. Others recommended that the Board prescribe additional consolidation guidance for an investment company which controls another investment company.

SUMMARY OF STAFF RECOMMENDATIONS

To avoid disrupting the application of judgment in current practice, the staff recommends that the Board *not* prescribe additional consolidation guidance at this time. The staff recommends that certain editorial changes be made as indicated in the draft FSP provided to the Board and that it proceed to a draft of a final FSP for vote by written ballot.

1. **Does the Board agree with the staff recommendation not to prescribe additional consolidation guidance for an investment company which controls another investment company?**
2. **Does the Board agree with the staff’s disposition of the editorial suggestions made by respondents, as indicated in the attached draft FSP?**
3. **Does the Board wish to proceed to a ballot of the final FSP based on the attached staff draft?**



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Implementation Guidance on Interpretation 48

February 7, 2007

Summary of the Issue

At its January 17, 2007 meeting, the Board requested that the staff research whether it is possible to provide implementation guidance for issues surrounding the term “ultimately settled” in paragraph 10(b) of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. In consideration of this issue, the staff will ask the Board to clarify the intent of paragraphs 8, 10(b), and 12, as they pertain to “ultimately settled” and whether the Board would like to amend the Interpretation to address the concerns of constituents.

Based on the outcome of the Board’s deliberations, the staff will draft potential implementation guidance for the Board to consider.

Accounting Issues and Alternatives

Issue 1: Paragraph 10(b) of Interpretation 48 states, “The tax matter is ultimately settled through negotiation or litigation” to be interpreted to determine subsequent recognition when the taxing authority has examined a tax year and the more likely than not threshold was not previously met for the tax position?

Alternative A—If the tax position can be reopened for any reason other than evidence of fraud or misrepresentation of material facts, then the tax position should not be considered settled.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

Alternative B—If the taxing authority examined the tax position during the current examination process and based on past dealings with the taxing authority it is highly unlikely that the taxing authority would reexamine the particular tax position, the tax position can be considered to be settled for that examination period.

Alternative C—If the taxing authority examined the tax year and did not examine the specific tax position, but based on past dealings with the taxing authority it is highly unlikely that the taxing authority would examine this particular tax position in the future, the tax position can be considered to be ultimately settled for that examination period.

Issue 2: If the Board selects Alternative A or Alternative B in Issue 1, does the Board want to include a transition provision that an entity is not required to reevaluate a tax position it had previously considered settled and apply the conclusions in Issue 1 on a prospective basis to tax positions it had not considered settled absent a change in facts and circumstances?

Alternative A—At initial adoption, an entity is not required to reevaluate a tax position it had previously considered settled and should only apply the conclusions in Issue 1 on a prospective basis for positions that are not considered settled unless there is a change in facts and circumstances.

Alternative B—An entity must apply the same conclusion at the adoption date that it reached on the definition of ultimately settled, to all tax positions regardless of their prior policy.