MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Consolidations Team
Subject:	Minutes of the January 15, 2003 Board Meeting — **Date:** January 16, 2003
Time Code	A: CON-P
Cc:	Bielstein, Smith, Petrone, Leisenring, Consolidations Team, Swift, Polley, Gabriele, Sutay, Thompson, Mahoney, Cassel, Wilkins, Martin, FASB Intranet

Topics:	Measurement of Assets Transferred to a Variable Interest Entity by the Primary Beneficiary and Recognition of Gain or Loss upon Initial Consolidation of a Variable Interest Entity
Basis for Discussion:	Reviewers' comments
Length of Discussion:	Starting Time: 9:00 a.m.
	Concluding Time: 9:15 a.m.
Attendance:	
Board members present:	Herz, Crooch, Foster, Schieneman, Schipper, Trott, and Wulff
Board members absent:	None
Staff in charge of topics:	Lott
Other staff at Board table:	Coburn, Smith, Tovey, and R. Richards
Outside participants:	Leisenring (IASB)

SUMMARY OF DECISIONS REACHED

The Board discussed the following matters:

1. How an asset transferred to a variable interest entity by that entity's primary beneficiary should be measured
2. Whether a primary beneficiary should recognize a gain or loss from initial consolidation of a variable interest entity.

The Board reached the following decisions:

1. The Board decided that the primary beneficiary of a variable interest entity should initially measure assets that it has transferred to that variable interest entity at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. No gain or loss should be recognized because of the transfer even if the enterprise was not the primary beneficiary until after the transfer occurred. [All Board members agreed]
2. The Board decided that, upon initial consolidation of a variable interest entity by a primary beneficiary, the primary beneficiary should recognize any losses immediately in earnings. Amounts that otherwise would be gains should be accounted for according to the requirements in FASB Statement No. 141, *Business Combinations*. [Six Board members agreed; KAS disagreed]

MATTERS DISCUSSED

Assets Transferred to a Variable Interest Entity by the Primary Beneficiary

The Board voted unanimously that the primary beneficiary of a variable interest entity should initially measure assets that it transfers to that entity at the same amounts at which the assets and liabilities would have been measured if they had not been transferred, and that no gain or loss should be recognized because of the transfer even if the enterprise was not the primary beneficiary until shortly after the transfer occurred. The Board noted that enterprises would likely eliminate the gains and losses through normal intercompany eliminations, but the Board wanted to be explicit about the accounting treatment for asset transfers by primary beneficiaries.

Initial Consolidation of a Variable Interest Entity by the Primary Beneficiary

The Board decided that, upon initial consolidation of a variable interest entity, the primary beneficiary should recognize any resulting loss immediately as an extraordinary item and account for any amounts that otherwise would be gains in accordance with the requirements of Statement 141. In support of their decision, Board members stated that (1) it would be inappropriate to require primary beneficiaries to recognize gains and losses immediately in earnings since

Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, has no such requirement, (2) it would be best to wait until a decision on initial measurement in a business combination (in the purchase method procedures project) had been made effective to decide whether to require primary beneficiaries to recognize both gains and losses on initial consolidation immediately in earnings, and (3) Board members were concerned about enterprises structuring consolidations in order to create immediate gains.

Other Matters

The Board also discussed additional explanatory language that has been added to the conditions under which an entity is determined to be a variable interest entity (in paragraph 5(b) of the draft). An entity's equity investors (as a group) would not be considered to have decision-making power if (1) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, to receive the expected residual returns of the entity, or both and (2) substantially all of an entity's activities involve or are conducted on behalf of an investor that has disproportionately few voting rights. Board members described the additional language as an anti-abuse clause.

Board members indicated that the decisions reached at the meeting would not cause any additional Board members to dissent to the Interpretation, *Consolidation of Variable Interest Entities*.

FOLLOW-UP ITEMS

None.

GENERAL ANNOUNCEMENTS

None.