MINUTES

To:	Board Members		
From:	J. Johnson (ext. 359), Cornett (442)		
Subject:	Minutes of the February 7, 2007 Board Meeting: Proposed FSP: "Application of FASB Interpretation No. 46(R) to Investment Companies"	**Date:**	February 14, 2007
cc:	Cornett, Jacobs, Fanzini, Leisenring, Bielstein, Smith, Golden, MacDonald, Swift, Polley, Carney, Richter, Gabriele, Allen, FASB Intranet		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topics:	Proposed FSP: Application of FIN 46(R) to Investment Companies
Basis for Discussion:	Board Memorandum No. 3
Length of Discussion:	9:00 to 9:30 a.m.
Attendance:	
Board members present:	FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young
IASB:	Leisenring
Staff in charge of topic:	J. Johnson
Other staff at Board table:	Smith, Golden, Cornett

Summary of Decisions Reached:

The Board directed the staff to prepare a ballot draft of the final FASB Staff Position FIN 46(R)-7: "Application of FASB Interpretation No. 46(R) to Investment Companies" for the Board's consideration.

Objective of Meeting:

The objective of the meeting was for the Board to consider the approval of the final FSP. The objective was met.

Matters Discussed and Decisions Reached:

1. Mr. Cornett stated that the Board had previously discussed the proposed FSP at the November 1, 2006 Board meeting. At that time, the Board decided to expose the proposed FSP for public comment. 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*.

2. Mr. Cornett stated that the exposure period ended on December 22, 2006. The staff reviewed 8 comment letters submitted by constituents and summarized the letters in a Board memorandum. The staff noted that the tone of the responses was generally supportive, though some respondents recommended minor editorial changes. Other respondents recommended that the Board prescribe additional consolidation guidance for an investment company that holds a controlling financial interest in another investment company.

3. Mr. Cornett noted that there is diversity in practice regarding this issue and that the staff believes that consolidation is not appropriate in every circumstance. He further stated that the current practice is to assess multiple qualitative factors, including the investment objectives of the potential consolidator, when making this determination.

4. Mr. Cornett stated that the staff recommended that the Board not prescribe additional consolidation guidance at this time. The staff also recommended certain editorial changes to the draft FSP. Finally, the staff recommended that the Board proceed to a draft of a final FSP for vote by written ballot.

5. Mr. Linsmeier questioned the basis for the staff's belief that current practice is adequately addressing the ambiguity in existing literature surrounding the consolidation of one investment company by another investment company. Mr. Cornett answered that the staff spoke to representatives from the major accounting firms during its research, and noted that their practices seemed to provide a practical and expedient method for addressing the ambiguity in current guidance.

6. Mr. Johnson added that the staff also discussed the matter with representatives from the SEC, who expressed the view that they were supportive of current practice, because it allowed for judgment on a case-by-case basis.

7. Mr. Linsmeier questioned what qualitative factors should be considered when determining whether consolidation was appropriate. He noted that the objectives of the potential consolidator seemed overly vague, and he was unclear as to what other characteristics were being evaluated in practice.

8. Mr. Johnson stated that there was diversity between the firms with regard to what factors they considered. He gave as examples the percent ownership of the parent firm, and whether or not the parent was invested for capital appreciation or for administrative reasons. He noted that the Board previously stated a preference to avoid a long-term consolidations project which would only serve to address a narrow subset of the issuer community since it would not be a cost-effective use of the Board's or staff's resources.

9. Mr. Linsmeier further noted that a 90 percent "bright line" test was not his preference, but that he was still unclear as to what factors were evaluated in practice, other than the objectives of the parent company in holding the investment.

10. Mr. Smith explained that the staff understood that the Board's preference was to avoid an additional project on consolidations and to avoid disrupting current practice, based on their previous comments.

11. Mr. Leisenring noted that the IASB did not consider the investment objectives of the parent company to be a proper basis on which to support an opinion regarding consolidation. Additionally, Mr. Leisenring expressed the view that the current FSP could effectively dispose of the issue at hand (whether or not to apply FIN 46 to investment companies) without mentioning the guidance from the Audit Guide.

12. Mr. Trott noted that a previous Board cleared the Audit Guide for investment companies, as well as SOP 07-1, and implicitly endorsed the application of judgment based upon the investment objectives of the parent investment company, and the carryover of the special accounting treatment in the consolidated financial statements of the ultimate parent company, if it was not itself an investment company. Mr. Trott also stated his belief that applying the specialized accounting described in the Audit Guide to companies which were outside its scope would be inappropriate.

13. Ms. Seidman concurred with Mr. Leisenring that stating a principle on which consolidation should be based was not necessary and that omitting the language to this effect would avoid stating a view which could be misinterpreted and applied outside of the context of an investment company.

14. Mr. Herz called for a vote on whether to move forward to a ballot draft of the document, which would incorporate the changes requested by the Board at the meeting. The Board voted 6 to 1 (Young) to proceed to the document.

<u>Follow-Up Items</u>:

The staff agreed to make the requested changes to the document, including the removal of any mention of the objectives of the parent company in holding the investment and the editorial changes included in the most recent draft version as a result of the comment period.

General Announcements:

None.