

MINUTES



**To:** Board Members  
**From:** Murphy (ext. 208)  
**Subject:** Minutes of the September 7, 2005 FSP FIN 46R-c Board Meeting  
**Date:** September 29, 2005  
**cc:** Bielstein, L. Smith, Petrone, Belcher, Jacobs, Goetsch, Goodman, Polley, Gabriele, Getz, Carney, Mahoney, Sutay, Leisenring (IASB), 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 or Interpretation.*

**Topic:** Proposed FASB Staff Position FIN 46R-c, "Determining the Variability to be Considered When Applying FASB Interpretation No. 46(R)" —Approach, Examples, Transition, and Effective Date

**Basis for Discussion:** Memorandum dated August 18, 2005

**Length of Discussion:** 9:00 a.m. to 9:40 a.m.

**Attendance:**

Board members present: **FASB:** Batavick, Crooch, Herz, Schipper, Seidman, Trott, and Young (via phone)

**IASB:** Leisenring

Board members absent: None

Staff in charge of topic: Belcher

Other staff at Board table: Golden, Goetsch, Jacobs, Murphy, L. Smith

Outside participants: None

## Summary of Decisions Reached

The Board decided that a proposed FSP that addresses determining the variability to be considered when applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, should be issued for public comment. The proposed FSP will recognize that there currently is diversity in practice with respect to determining the variability to consider when applying Interpretation 46(R). The proposed FSP outlines, in principle, a systematic process for analyzing the design of the variable interest entity (VIE) or potential VIE to determine the purpose of the entity and the risks and variability the entity was designed to create and pass along to its interest holders. Examples will be included to illustrate how that process would be applied to specific transactions.

The Board also decided that the guidance in the final FSP would be effective prospectively from the date the FSP is posted to the FASB website for new initial determinations as to whether an entity is a VIE (including newly created entities). In addition, the guidance would be effective for all entities previously analyzed under Interpretation 46(R) for which a reconsideration event as to whether an entity is a VIE occurs pursuant to paragraph 7 of Interpretation 46(R) after the effective date. Early application also would be permitted for periods for which financial statements have not yet been issued. Retroactive application to the date of the initial application of Interpretation 46(R) would be permitted but not required. The amount of time that will be allowed for an enterprise to retroactively apply the guidance in the FSP, if that transition approach is elected, was not determined at the meeting, but will be included in the proposed FSP.

The Board instructed the staff to proceed to a draft of a proposed FSP for vote by written ballot.

## **Objective of Meeting**

The objective of the meeting was for the Board to consider whether to approve the posting of proposed FSP FIN 46(R)-c for public comment.

## **Matters Discussed and Decisions Reached**

### ***Approach and Analysis of Examples***

1. Mr. Belcher stated that the proposed FSP acknowledges that currently diversity in practice exists with respect to determining the variability to consider when applying Interpretation 46(R). In order to mitigate that diversity, the proposed FSP outlines, in principle, a systematic process for analyzing the design of the VIE or potential VIE to determine the purpose of the entity and the risks and variability the entity was designed to create and pass along to its interest holders. He added that examples are included in the proposed FSP to illustrate how that process would be applied to specific transactions. Mr. Belcher asked the Board whether it agreed with the approach to determining the variability to consider as well as the staff's analysis of the examples as presented in the proposed FSP.

2. All Board members agreed with that approach as well as the staff's analysis of the examples as presented in the proposed FSP. However, Ms. Seidman expressed her concern that the principle exhibited in the examples—that when the derivative or other ancillary contract relates to substantially all of the risks (or rewards) of an asset (or group of assets) held by an entity, it will be considered a variable interest—needs to be more clear in Example 5. In other words, she said that it is unclear why the conclusion reached in Example 5, in which the variable interest relates to all of the assets (or in this case the entire asset) in the entity, is different than the conclusions reached in the other examples, in which the variable interest only relates to a particular risk associated with the asset(s).

3. Ms. Schipper noted several aspects of the FSP that she believes will be valuable, in terms of providing useful guidance. First, the FSP clearly distinguishes between the cash flow approach and the fair value approach.

Second, the FSP explains that although it could be possible in many circumstances to implement either of those approaches to reach the same conclusions as would be reached by applying the design approach, it is not necessarily the case that one would get to the same outcome; thus, the design approach differs from both the cash flow approach and the fair value approach. Third, the FSP explains that the cash flow approach and the fair value approach are not what were intended by the Board in its discussion of the design of the entity in Appendix B of Interpretation No. 46(R), even though either of those approaches could lead to an analysis of the design of the entity. Fourth, the FSP emphasizes the role of qualitative analysis; that type of analysis was apparently not sufficiently emphasized in the discussion of the design of the entity in Appendix B of Interpretation 46(R) even though the Board believed at that time that qualitative analysis was important.

#### ***Transition and Effective Date***

4. Mr. Belcher noted that by the time a final FSP is posted to the FASB website, all enterprises will have been required to apply the provisions of Interpretation 46(R). With that in mind, he said that the staff proposes two transition alternatives for the guidance provided in the proposed FSP: Alternative A is to follow the transition provided by Interpretation 46(R) and Alternative B, the staff recommendation, is to apply the FSP prospectively and grandfather existing decisions as to what variability to consider and which interests are considered variable interests. Mr. Belcher clarified Alternative B by noting that after the date the final FSP is posted to the website, the guidance in the proposed FSP would be applied (a) to all newly created entities, (b) to any entity for which a reconsideration event as to whether an entity is a VIE occurs pursuant to paragraph 7 of Interpretation 46(R), and (c) when making an initial determination as to whether an entity is a variable interest entity on the date that an enterprise becomes first involved with an entity. Further, retrospective application to the date of the initial application of Interpretation 46(R) would be permitted but not required. Early application would be permitted for periods for which statements have not yet been issued.

5. All Board members agreed that Alternative B should be the transition guidance in the proposed FSP. However, Mr. Trott and Ms. Schipper noted that under this approach there will still be diversity in practice. Ms. Schipper also stated that it is unusual for guidance on consolidation policy to have prospective application because if there was a long-lived variable interest entity that never had a reconsolidation event, it would always be accounted for under the same approach, thus resulting in a form of noncomparability that might be viewed as troublesome.

6. The Board agreed that the effective date for the proposed FSP should be the date it is posted to the FASB website for all newly created entities and any entity for which a reconsideration event as to whether an entity is a VIE occurs pursuant to paragraph 7 of Interpretation 46(R). The effective date for entities that elect to retroactively apply the guidance should be a later date, such as the beginning of the next quarter. Mr. Belcher said that the staff will clarify the effective date guidance in the final drafting of the proposed FSP.

**Follow-up Items:**

7. The staff expects to post the proposed FSP to the FASB website in approximately two weeks for a sixty-day comment period.

**General Announcements:**

8. None