

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2010-10
February 2010

Consolidation (Topic 810)

Amendments for Certain Investment Funds

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) recently affirmed their decision to jointly develop guidance for consolidation of all entities, including entities currently considered variable interest entities. Prior to that decision, the IASB was conducting a standalone project to reconsider its consolidation guidance. Although FASB Statement No. 167, *Amendments to FASB Interpretation 46(R)*, was not developed as part of the joint consolidation project, the IASB closely followed the deliberations that led to the issuance of that Statement. Except for investment funds managed by investment managers, the guidance in Exposure Draft 10 (ED 10), *Consolidated Financial Statements*, and the deliberations of the IASB specific to structured entities (variable interest entities in U.S. generally accepted accounting principles [GAAP]) appear to yield similar consolidation results for other types of variable interest entities. Although the IASB has not completed its deliberations or reached any conclusions on evaluating principal and agent relationships, its preliminary deliberations indicate a potentially different consolidation conclusion for certain investment funds when compared with the conclusion reached under Statement 167. In addition, several users of financial statements of investment managers continued to express concerns about the usefulness of those statements if the investment managers were required to consolidate the investment funds that they manage. Accordingly, the FASB decided that the effective date of the amendments to the consolidation requirements in Topic 810 resulting from the issuance of Statement 167 should be deferred for a reporting entity's interest in certain entities so that both Boards could develop consistent guidance on principal and agent relationships as part of the joint consolidation project.

Who Is Affected by the Amendments in This Update?

The amendments in this Update may affect reporting entities with interests in an entity (1) that has all of the attributes of an investment company, as specified in Topic 946 (Financial Services—Investment Companies) of the *FASB Accounting Standards Codification*[™], or (2) for which it is industry practice to apply measurement principles for financial reporting that are consistent with those in Topic 946. The amendments may also affect reporting entities with interests in entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments are expected

to most significantly affect reporting entities in the investment management industry.

What Are the Main Provisions?

Accounting Guidance

The amendments to the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 are deferred for a reporting entity's interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral does not apply in situations in which a reporting entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also does not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying special-purpose entities. In addition, the deferral applies to a reporting entity's interest in an entity that is required to comply or operate in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20.

The amendments in this Update also clarify that for entities that do not qualify for the deferral, related parties should be considered when evaluating each of the criteria in paragraph 810-10-55-37, as amended by Statement 167, for determining whether a decision maker or service provider fee represents a variable interest. In addition, the requirements for evaluating whether a decision maker's or service provider's fee is a variable interest are modified to clarify the Board's intention that a quantitative calculation should not be the sole basis for this evaluation.

Disclosures

The amendments in this Update do not defer the disclosure requirements in the Statement 167 amendments to Topic 810. Accordingly, both public and nonpublic companies are required to provide the disclosures included in Topic 810, as amended by Statement 167, for all variable interest entities in which they hold a variable interest. This includes variable interests in entities that qualify for the deferral but are considered VIEs under the provisions in Topic 810 (before the Statement 167 amendments).

When Will the Amendments Be Effective?

The amendments in this Update are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The effective date coincides with the effective date for the Statement 167 amendments to Topic 810. Early application is not permitted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The IASB is currently deliberating amendments to its consolidation guidance for all entities, including those that would be considered variable interest entities under U.S. GAAP. This Update results in the deferral of the consolidation guidance in the Statement 167 amendments to Topic 810 for a reporting entity's interest in certain entities to allow the FASB to work with the IASB in developing consistent consolidation guidance for interests in these entities.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 810-10

2. Amend the pending content in paragraph 810-10-55-37, with a link to transition paragraph 810-10-65-2, as follows:

Consolidation—Overall

Implementation Guidance and Illustrations

> > Fees Paid to Decision Makers or Service Providers

810-10-55-37 Fees paid to a legal entity's decision maker(s) or service provider(s) are not variable interests if all of the following conditions are met:

- a. The fees are compensation for services provided and are commensurate with the level of effort required to provide those services.
- b. Substantially all of the fees are at or above the same level of seniority as other operating liabilities of the VIE that arise in the normal course of the VIE's activities, such as trade payables.
- c. The decision maker or service provider ~~and its related parties, if any, do~~does not hold other interests in the VIE that individually, or in the aggregate, would absorb more than an insignificant amount of the VIE's **{Glossary link}expected losses{Glossary link}** or receive more than an insignificant amount of the VIE's **{Glossary link}expected residual returns{Glossary link}**. ~~The term *related parties* refers to all parties identified in paragraph 810-10-25-43. However, for purposes of this condition, related parties do not include employees of the decision maker or service provider, unless~~

~~the employees are used in an effort to circumvent the provisions of the Variable Interest Entities Subsections.~~

- d. The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length.
- e. The total amount of anticipated fees are insignificant relative to the total amount of the VIE's anticipated economic performance.
- f. The anticipated fees are expected to absorb an insignificant amount of the variability associated with the VIE's anticipated economic performance.

3. Add paragraph 810-10-55-37A, with a link to transition paragraph 810-10-65-2, as follows:

810-10-55-37A For purposes of evaluating the conditions in the preceding paragraph, the quantitative approach described in the definitions of the terms *expected losses*, *expected residual returns*, and *expected variability* is not required and should not be the sole determinant as to whether a reporting entity meets such conditions. In addition, for purposes of evaluating the conditions in the preceding paragraph, any interest in the entity that is held by a **related party** of the entity's decision maker(s) or service provider(s) should be treated as though it is the decision maker's or service provider's own interest. For that purpose, a related party includes any party identified in paragraph 810-10-25-43 other than:

- a. An employee of the decision maker or service provider (and its other related parties), except if the employee is used in an effort to circumvent the provisions of the Variable Interest Entities Subsections of this Subtopic
- b. An employee benefit plan of the decision maker or service provider (and its other related parties), except if the employee benefit plan is used in an effort to circumvent the provisions of the Variable Interest Entities Subsections of this Subtopic.

4. Amend paragraph 810-10-65-2 as follows:

> Transition Related to FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*

810-10-65-2 The following represents the transition and effective date information related to FASB Statement No. 167, *Amendments to FASB Interpretation 46(R)*:

- a. Except as noted in item aa, the ~~The~~ pending content that links to this paragraph is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for

~~interim and annual reporting periods thereafter. Earlier application is prohibited. For public entities, in periods after initial adoption, comparative disclosures for those disclosures that were not previously required by paragraphs 810-10-50-7 through 50-19 are required only for periods after the effective date. Comparative information for disclosures previously required by those paragraphs that are also required by the pending content in the Variable Interest Entities Subsections shall be presented. For nonpublic entities, in periods after initial adoption, comparative disclosures for those disclosures that were not previously required are required only for periods after the effective date. Comparative information for disclosures previously required that are also required by the pending content in the Variable Interest Entities Subsections shall be presented.~~

aa. Except for the pending content in Section 810-10-50, the pending content that links to this paragraph shall not be applied to either of the following:

1. A reporting entity's interest in an entity if all of the following conditions are met:

i. The entity either:

01. Has all of the attributes specified in paragraph 946-10-15-2(a) through (d)

02. Does not have all of the attributes specified in paragraph 946-10-15-2(a) through (d) but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with those in Topic 946 (including recognizing changes in fair value currently in the statement of operations) for financial reporting purposes.

ii. The reporting entity does not have an explicit or implicit obligation to fund losses of the entity that could potentially be significant to the entity. This condition should be evaluated considering the legal structure of the reporting entity's interest, the purpose and design of the entity, and any guarantees provided by the reporting entity's related parties.

iii. The entity is not:

01. A securitization entity

02. An asset-backed financing entity

03. An entity that was formerly considered a qualifying special-purpose entity.

Examples of entities that may meet the preceding conditions include a mutual fund, a hedge fund, a mortgage real estate investment fund, a private equity fund, and a venture capital fund. Examples of entities that do not meet the preceding conditions include structured investment vehicles, collateralized

debt/loan obligations, commercial paper conduits, credit card securitization structures, residential or commercial mortgage-backed entities, and government sponsored mortgage entities.

2. A reporting entity's interest in an entity that is required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

An entity that initially meets the deferral requirements in this subparagraph may subsequently cease to qualify for the deferral as a result of a change in facts and circumstances. In that situation, the pending content that links to this paragraph shall become effective for the entity. Accordingly, if the reporting entity is required to consolidate an entity because the entity no longer qualifies for the deferral, the reporting entity shall initially measure the assets, liabilities, and noncontrolling interests of the VIE in accordance with paragraphs 810-10-30-1 through 30-6, as of the date the entity ceases to qualify for the deferral.

- aaa. Public and nonpublic entities shall provide the disclosures required by the pending content in paragraphs 810-10-50-1 through 50-19 that links to this paragraph for all variable interests in **variable interest entities (VIEs)**. This includes variable interests in VIEs that qualify for the deferral in the preceding subparagraph but are considered VIEs under the provisions of the Variable Interest Entities Subsections of this Subtopic before the amendments in the pending content that links to this paragraph (that is, before the effects of Accounting Standards Updates 2009-17 and 2010-10). For public entities, in periods after initial adoption, comparative disclosures for those disclosures that were not previously required by paragraphs 810-10-50-7 through 50-19 are required only for periods after the effective date. Comparative information for disclosures previously required by those paragraphs that also are required by the pending content in the Variable Interest Entities Subsections shall be presented. For nonpublic entities, in periods after initial adoption, comparative disclosures for those disclosures that were not previously required are required only for periods after the effective date. Comparative information for disclosures previously required that also are required by the pending content in the Variable Interest Entities Subsections shall be presented.

- b. If a reporting entity is required to consolidate a **variable interest entity (VIE)-VIE** as a result of the initial application of the pending content that links to this paragraph, the initial measurement of the assets, liabilities, and noncontrolling interests of the VIE depends on whether the determination of their carrying amounts is practicable. In this context, *carrying amounts* refers to the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements if the requirements of

the pending content that links to this paragraph had been effective when the reporting entity first met the conditions to be the **primary beneficiary**.

1. If determining the carrying amounts is practicable, the consolidating entity shall initially measure the assets, liabilities, and noncontrolling interests of the VIE at their carrying amounts at the date the requirements of the pending content that links to this paragraph first apply.
2. If determining the carrying amounts is not practicable, the assets, liabilities, and noncontrolling interests of the VIE shall be measured at fair value at the date the pending content that links to this paragraph first applies. However, as an alternative to this fair value measurement requirement, the assets and liabilities of the VIE may be measured at their unpaid principal balances at the date the pending content that links to this paragraph first applies if both of the following conditions are met:
 - i. The activities of the VIE are primarily related to securitizations or other forms of asset-backed financings.
 - ii. The assets of the VIE can be used only to settle obligations of the entity.

This measurement alternative does not obviate the need for the primary beneficiary to recognize any accrued interest, an allowance for credit losses, or other-than-temporary impairment, as appropriate. Other assets, liabilities, or noncontrolling interests, if any, that do not have an unpaid principal balance, and any items that are required to be carried at fair value under other applicable standards, shall be measured at fair value.

- c. Any difference between the net amount added to the balance sheet of the consolidating entity and the amount of any previously recognized interest in the newly consolidated VIE shall be recognized as a cumulative effect adjustment to retained earnings. A reporting entity shall describe the transition method(s) applied and shall disclose the amount and classification in its statement of financial position of the consolidated assets or liabilities by the transition method(s) applied.
- d. A reporting entity that is required to consolidate a VIE as a result of the initial application of the pending content in the Variable Interest Entities Subsections may elect the fair value option provided by the Fair Value Option Subsections of Subtopic 825-10, only if the reporting entity elects the option for all financial assets and financial liabilities of that VIE that are eligible for this option under those Fair Value Option Subsections. This election shall be made on a VIE-by-VIE basis. Along with the disclosures required in those Fair Value Option Subsections, the consolidating reporting entity shall disclose all of the following:

1. Management's reasons for electing the fair value option for a particular VIE or group of VIEs
 2. The reasons for different elections if the fair value option is elected for some VIEs and not others
 3. Quantitative information by line item in the statement of financial position indicating the related effect on the cumulative-effect adjustment to retained earnings of electing the fair value option for a VIE.
- e. If a reporting entity is required to deconsolidate a VIE as a result of the initial application of the pending content in the Variable Interest Entities Subsections, the deconsolidating reporting entity shall initially measure any retained interest in the deconsolidated subsidiary at its carrying amount at the date the requirements of the pending content in the Variable Interest Entities Subsections first apply. In this context, ~~carrying amount~~ carrying amount refers to the amount at which any retained interest would have been carried in the reporting entity's financial statements if the pending content in the Variable Interest Entities Subsections had been effective when the reporting entity became involved with the VIE or no longer met the conditions to be the primary beneficiary. Any difference between the net amount removed from the balance sheet of the deconsolidating reporting entity and the amount of any retained interest in the newly deconsolidated VIE shall be recognized as a cumulative-effect adjustment to retained earnings. The amount of any cumulative-effect adjustment related to deconsolidation shall be disclosed separately from any ~~cumulative-effect~~ cumulative-effect adjustment related to consolidation of VIEs.
- f. The determinations of whether a legal entity is a VIE and which reporting entity, if any, is a VIE's primary beneficiary shall be made as of the date the reporting entity became involved with the legal entity or if events requiring reconsideration of the legal entity's status or the status of its variable interest holders have occurred, as of the most recent date at which the pending content in the Variable Interest Entities Subsections would have required consideration.
- g. If at transition it is not practicable for a reporting entity to obtain the information necessary to make the determinations in (f) above as of the date the reporting entity became involved with a legal entity or at the most recent reconsideration date, the reporting entity should make the determinations as of the date on which the pending content in the Variable Interest Entities Subsections is first applied.
- h. If the VIE and primary beneficiary determinations are made in accordance with subparagraphs (f) and (g) above, then the primary beneficiary shall measure the assets, liabilities, and noncontrolling interests of the VIE at fair value as of the date on which the pending content in the Variable Interest Entities Subsections is first applied. However, if the activities of the VIE are primarily related to

securitizations or other forms of asset-backed financings and the assets of the VIE can be used only to settle obligations of the VIE, then the assets and liabilities of the VIE may be measured at their unpaid principal balances (as an alternative to a fair value measurement) at the date the pending content in the Variable Interest Entities Subsections first applies. This measurement alternative does not obviate the need for the primary beneficiary to recognize any accrued interest, an allowance for credit losses, or other-than-temporary impairment, as appropriate. Other assets, liabilities, or noncontrolling interests, if any, that do not have an unpaid principal balance, and any items that are required to be carried at fair value under other applicable standards, shall be measured at fair value.

- i. The pending content in the Variable Interest Entities Subsections may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated.
- j. The pending content linked to this paragraph may amend or supersede either nonpending content or other pending content with different or the same effective dates. If a paragraph contains multiple pending content versions of that paragraph, it may be necessary to refer to the transition paragraphs of all such pending content to determine the paragraph that is applicable to a particular fact pattern.

5. Amend the transition date in the pending content box for all pending content that links to paragraph 810-10-65-2 from *November 15, 2009* to *Various*.

6. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Related Parties	Added	2010-10	02/25/2010
810-10-55-37	Amended	2010-10	02/25/2010
810-10-55-37A	Added	2010-10	02/25/2010
810-10-65-2	Amended	2010-10	02/25/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. In October 2009, the IASB and the FASB affirmed their previous decision to jointly develop guidance for consolidation of all entities, including entities currently considered variable interest entities. Prior to that decision, the IASB was conducting a standalone project to reconsider its consolidation guidance and issued Exposure Draft 10 (ED 10), *Consolidated Financial Statements*, in December 2008. However, now both Boards are addressing those issues in their joint consolidation project.

BC3. Statement 167 was issued in June 2009 and was not developed as part of the joint consolidation project. However, the IASB closely followed the deliberations that led to the issuance of that Statement. Except for investment funds managed by investment managers, the guidance in ED 10 and the deliberations of the IASB specific to structured entities (variable interest entities in Subtopic 810-10) appear to yield similar consolidation results for other types of variable interest entities. Although the IASB has not completed its deliberations or reached any conclusions on evaluating principal and agent relationships, its preliminary deliberations indicate potentially different consolidation conclusions for a reporting entity's interest in certain investment funds when compared with the conclusions reached under the Statement 167 amendments to Topic 810. In addition, several users of financial statements of investment managers expressed concerns about the usefulness of those statements if the investment managers were required to consolidate the investment funds they manage. Accordingly, the Board agreed that the effective date of the Statement 167 amendments to consolidation requirements in Topic 810 should be deferred for a reporting entity's interest in certain investment funds so that both Boards could develop consistent guidance on principal and agent relationships as part of the joint consolidation project.

BC4. The Board considered, as an alternative, requiring the application of the Statement 167 amendments to Topic 810 to these investment funds and allowing

investors and users to determine what additional information should be provided by preparers to alleviate user concerns. The Board ultimately rejected that alternative based on concerns that the guidance for these entities might change as a result of the ongoing joint consolidation project. However, the deferral should not be interpreted to mean that the consolidation conclusion for those investment funds under the joint project with the IASB necessarily will be different from that reached under the Statement 167 amendments to Topic 810.

Scope

BC5. The Board concluded that it is appropriate to defer the effective date of the Statement 167 amendments to the consolidation requirements in Topic 810 for a reporting entity's interest in those entities that have all of the attributes specified in paragraph 946-10-15-2(a) through (d), if certain criteria are met. The Board recognized that there are investment funds that (a) are not subject to U.S. GAAP or (b) are not included in the scope of Topic 946 but have the same characteristics as entities within the scope of Topic 946 that may be eligible for the deferral. In addition, the Board concluded that it also is appropriate to defer the effective date of the Statement 167 amendments to the consolidation requirements in Topic 810 for a reporting entity's interest in an entity that may not have one or more of the attributes in paragraph 946-10-15-2, but for which it is acceptable based on industry practice to apply measurement principles that are consistent with those in Topic 946 for financial reporting purposes. The Board noted that an example of such an entity is certain real estate funds that record their investments at fair value with changes in fair value recognized in their statement of operations.

BC6. The Board decided that other than for interests in money market mutual funds (see paragraphs BC15 through BC18), this deferral will not apply to a reporting entity's interest in an entity if the reporting entity and its related parties, could be required to fund losses of the entity that could potentially be significant to the entity, including through explicit or implicit guarantees to the entity. The Board emphasized that determining whether a reporting entity has the obligation to fund losses that could potentially be significant to an entity requires judgment and consideration of all facts and circumstances about the terms and characteristics of a reporting entity's interest or interests in the entity along with the design and characteristics of the entity. Therefore, the Board decided not to provide specific guidance for determining whether a reporting entity has an obligation to fund losses that could potentially be significant to the entity. The Board concluded that providing that guidance would inevitably result in the establishment of "bright lines" that would be used in practice as the sole factor for determining whether that obligation could potentially be significant to the entity.

BC7. The Board concluded that if a reporting entity has explicitly (through a contract or a legal requirement) or implicitly guaranteed the obligations of an investment fund, that guarantee is considered to be a potential funding of losses

of the entity and, accordingly, if the guarantee could potentially be significant to the entity, would disqualify the entity from eligibility for the deferral provided by the amendments in this Update. Paragraph 810-10-65-2(aa)(1)(ii) states, in part, that the condition shall be evaluated considering (a) the legal structure of the reporting entity's interest, (b) the purpose and design of the entity, and (c) any guarantees provided by the reporting entity's related parties. The Board noted that if a reporting entity's exposure to the obligations of an investment fund, such as a partnership is limited based on the legal structure of its interest, the entity may qualify for the deferral. For example, a general partner's unlimited liability with respect to its interest in a limited partnership that has general recourse debt obligations would not be deemed to expose the reporting entity (general partner's investor) to losses of the partnership that could potentially be significant to the partnership, if the general partner has no assets other than its interest in the limited partnership and the partnership's creditors have no recourse to assets of the financial reporting entity (general partner's investor).

BC8. The Board decided that the assessment as to whether the reporting entity has an obligation to fund the entity's losses should be based on the purpose and design of the entity. Accordingly, claw back arrangements, where an investment manager may be required to refund prior fee payments made by the entity up to the amount of fees previously received, would not result in a violation of the deferral criteria. In addition, the Board concluded that agreements to make future capital commitments to an entity should be analyzed based on facts and circumstances to determine whether they result in a violation of the deferral criteria. As such, if a capital commitment is based on a requirement to fund the entity over time as the investment manager finds suitable investments, it would not cause a violation of the deferral criteria provided all the criteria were met. However, if the investor's commitments could relate to funding losses, even if all of the investors are required to contribute on a pro rata basis, this would be considered an obligation to fund the entity's losses and, if potentially significant to the entity, would disqualify the entity from being eligible for the deferral.

BC9. The Board agreed that this deferral should not apply to entities including, but not limited to, securitization entities, asset-backed financing entities, or entities that were formerly considered qualifying special-purpose entities even if practice considers those entities to have characteristics similar to those of an investment company, as defined in Topic 946, or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with that Topic. These entities have historically been understood to be potential variable interest entities as evidenced in the scope section in the Basis for Conclusions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, and its subsequent amendments.

BC10. The Board concluded that an entity with multiple levels of subordinated investors, for example, a collateralized debt obligation or collateralized loan obligation for which the primary purpose of the capital structure of the entity is to provide credit enhancement to senior interest holders, will not qualify for the

deferral. The Board considers entities with this type of capital structure to be asset-backed financing entities. In addition, the Board concluded that an entity that has characteristics consistent with those of a variable interest entity included in the examples in the Statement 167 amendments to Topic 810 will not meet the requirements to qualify for the deferral provided in the amendments in this Update.

BC11. The Board decided that an investment in an entity, regardless of its magnitude, will not preclude that entity from qualifying for the deferral provided in the amendments in this Update as long as the entity meets the other requirements for the deferral.

BC12. The Board concluded that entities that may meet the conditions of the deferral include mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds. However, even for these types of entities, the reporting entity should carefully evaluate whether all of the criteria for the deferral have been met. The Board expects that this deferral will apply to a limited number of types of entities and that careful consideration should be given to the nature of the entity being considered and the underlying relationship that the reporting entity has with the entity.

BC13. The Board agreed that for entities that qualify for the deferral, the reporting entity will continue to apply the overall consolidation guidance for variable interest entities in Subtopic 810-10 (before the Statement 167 amendments to Topic 810) or other applicable consolidation guidance, such as the consolidation guidance for partnerships in Subtopic 810-20, when evaluating the entity for consolidation. However, the reporting entity is required to provide the disclosures included in Topic 810, as amended by Statement 167, for all variable interest entities in which it holds a variable interest regardless of whether the entities qualify for the deferral.

Money Market Mutual Funds

BC14. Money market funds generally invest in short-term government securities, certificates of deposit, and commercial paper and pay dividends that generally reflect short-term interest rates. These funds are typically required to comply with Rule 2a-7 of the Investment Company Act of 1940 (the Act). The Act requires that investment managers of money market funds minimize the funds' credit risk by investing in highly rated short-term securities. Although credit losses in a money market fund could occur, these funds are typically required to be managed in a manner that minimizes credit losses. Money market funds recognize their investments at amortized cost and generally maintain a constant net asset value (typically \$1.00) per share by adjusting the returns to their investors as general interest rates fluctuate.

BC15. Some constituents have said that a money market manager's decision-making fees represent a variable interest in the money market fund as a result of explicit or implicit guarantees to fund credit losses in situations in which the net

asset value of the fund decreases to a value less than \$1.00. Certain constituents also have said that any funding historically provided by the investment manager creates an implicit guarantee to investors in a money market fund. In other words, any historical funding provided by an investment manager implies that investors would be protected, at least in part, by the investment manager, even in situations in which the investment manager has no statutory or contractual obligation to provide future funding. In addition, certain constituents said that voluntary funding provided for a single money market fund implies that the investment manager would provide funding to all of the funds it manages, and, accordingly, all of the money market funds it manages may be required to be consolidated by the investment manager under the Statement 167 amendments to Topic 810. Absent any explicit or implicit guarantees provided by the money market manager, the fees would not be considered a variable interest under the Statement 167 amendments to Topic 810.

BC16. The Board did not discuss whether it agrees or disagrees with those constituents. However, based on the restrictive requirements of the Act and the credit quality of the assets those entities are permitted to hold, the Board concluded that the Statement 167 amendments to the Topic 810 consolidation requirements should not result in investment managers having to consolidate money market funds that operate in accordance with the requirements of the Act. Consequently, the Board concluded that money market funds will qualify for the deferral of the Statement 167 amendments to the Topic 810 consolidation requirements until the joint project with the IASB is completed.

BC17. The Board also acknowledged that the deferral should not be limited to registered money market funds that are required to comply with the Act, but that it also should apply to all funds that operate in a manner similar to registered money market funds that are required to apply the Act. The Board expects that all facts and circumstances will be considered and that judgment will be required for determining whether unregistered money market funds (either domestic or foreign) qualify for the deferral.

Amendments to Paragraph 810-10-55-37

BC18. When evaluating whether fees paid to a decision maker or service provider represent a variable interest in a variable interest entity, the Board intended that related-party interests should be considered in the evaluation of all of the conditions in paragraph 810-10-55-37, as amended by Statement 167, and not only when considering the requirements under condition (c). Accordingly, the Board decided to amend the guidance in paragraph 810-10-55-37, as amended by Statement 167, to explicitly state that related party interests should be treated as though they are the reporting entity's own interests when evaluating all of the conditions.

BC19. The Board concluded that an interest held by an employee benefit plan (including defined benefit and defined contribution plans) should be excluded from the definition of a related party set out in paragraph 810-10-55-37A, unless the employee benefit plan is being used to circumvent the provisions of the Statement 167 amendments to Topic 810. The Board reasoned that the substantive regulatory and fiduciary requirements governing employee benefit plans, including the Employee Retirement Income Security Act of 1974, as amended, are sufficient to permit this exclusion.

BC20. The Board clarified that the assessment of significance when performing the analysis in paragraph 810-10-55-37, as amended by Statement 167, should not be based solely on the quantitative approach described in the definitions of the terms *expected losses*, *expected residual returns*, and *expected variability* in the Master Glossary. The Board also considered changing the term *insignificant* in paragraph 810-10-55-37, as amended by Statement 167, to clarify that the intended meaning of the term does not mean *any*. However, the Board decided not to make editorial changes at this point and will consider whether any such changes are necessary after the deliberations on the joint consolidation project.

Benefits and Costs

BC21. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC22. The Board recognizes it may require significant effort for many reporting entities to gather the necessary data to conform with the Statement 167 amendments to Topic 810 and that the review and audit procedures to ensure compliance with those amendments to Topic 810 may require additional effort. Notwithstanding those additional costs, the Board developed the Statement 167 amendments to Topic 810 to provide users of financial statements with relevant information about a reporting entity's involvement with a variable interest entity or entities.

BC23. The Board considered other alternatives to address the issues raised by users about the usefulness of financial statements of funds under management. One such alternative was to encourage or require presentation of consolidating financial statements, so that the intercompany fee information would continue to

be prominently displayed (as an eliminating entry) while still having reporting entities consolidate the investment funds that they manage in accordance with the Statement 167 amendments to Topic 810. However, the Board decided that it was more prudent, at this time, to study the issue further before imposing the costs associated with that approach. The amendments in this Update will allow the Board to develop guidance with the IASB on how to evaluate the principal and agent relationships for all entities, including investment funds, while improving the financial reporting without delay for interests in other structured entities, including those that could require the reporting entity to provide future funding.

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.