

**Proposed FSP—Application of paragraph 5 of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, when variable interests in specified assets of a variable interest entity are not considered interests in the entity under paragraph 12 of Interpretation 46.
(Comment Deadline: May 26, 2003)**

Q—If an interest in specified assets of an entity would not be considered a variable interest in that entity under paragraph 12 of Interpretation 46, are the losses absorbed by that interest expected losses for determining whether the entity is a variable interest entity? That is, does the phrase *expected losses of the entity* have the same meaning in paragraph 5 as in paragraph 12?

A—Paragraph 5 refers to expected losses of an entity, and paragraph 12 explains when expected losses related to specified assets are considered expected losses of the entity that holds those assets. The provisions of paragraph 12 determine whether expected losses that will be absorbed by guarantees or other variable interests in specified assets are expected losses of the entity for purposes of determining whether an entity is a variable interest entity under paragraph 5. Accordingly, the phrase has the same meaning in both paragraphs.

The guidance in this FSP is effective immediately for variable interest entities to which the requirements of Interpretation 46 have already been applied. The guidance should be applied to other variable interest entities as a part of the adoption of Interpretation 46. If this guidance results in changes to previously reported information, the cumulative effect shall be reported according to the requirements of APB Opinion No. 20, *Accounting Changes*, in the first period ending after the final FSP is posted to the FASB website.