



Financial Accounting Standards Board

***AMENDMENTS TO FASB
INTERPRETATION 46(R)
OVERVIEW***

October 2008

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Key Factors Impacting Credit Markets

- Mortgage loans (subprime, ARM)
 - Originations and securitizations
 - Credit ratings and lack of investor due diligence
 - Misalignment of incentives
- Decline in real estate market followed by mortgage defaults and foreclosure losses
- Decline in value of mortgage-backed securities (impairments)
- Decline in financial condition of holders and guarantors of mortgage-backed securities
- Distressed credit markets



Financial Reporting Issues

- Securitization/off-balance sheet entities
 - Derecognition (Statement 140)
 - Consolidation (Interpretation 46(R))
- Fair value measurements (Statement 157)
- Allowance for loan losses (Statement 5 and 114)
- Trouble debt restructuring's (Statement 15)
- Loans held-for-sale (Statement 65)
- Other-than-temporary impairments (FSP FAS 115-1)
- Disclosures
 - FSP SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*



Interaction between Statement 140 and Interpretation 46(R)

- Elimination of the QSPE concept in Statement 140 will remove the scope exception in Interpretation 46(R) for QSPE's
- Removal of the scope exception for QSPEs will result in a significant increase in the population of entities subject to Interpretation 46(R)



FIN 46(R): Proposed Amendments

- Objectives
 - Provide users with more relevant and timely information related to an enterprise's involvement with a Variable Interest Entity (VIE)
 - More appropriately identify which party has a controlling financial interest in the VIE



FIN 46(R): Proposed Amendments

Determination of the Primary Beneficiary

- Primary assessment is qualitative to determine the enterprise with a variable interest that has:
 - (1) Power to direct matters that most significantly impact the activities of a VIE, including, but not limited to, activities that impact the entity's economic performance, AND
 - (2) The right to receive benefits from the VIE that could potentially be significant OR the obligation to absorb the losses of the VIE that could potentially be significant
- If the qualitative assessment is inconclusive, perform an expected loss calculation using the current expected loss model
- Shared power



FIN 46(R): Proposed Amendments

- No change to the criteria for determining whether or not an entity is a VIE
- The concept of reconsideration events has been replaced with an ongoing assessment to determine whether:
 - An entity is a VIE
 - An enterprise is the primary beneficiary of a VIE
- The exception that a trouble debt restructuring was not a reconsideration event has been eliminated
- Provides illustrative examples



FIN 46(R): Proposed Amendments

Enhanced disclosures

- Required for primary beneficiaries, significant variable interest holders, and sponsors of a VIE
- Provides a disclosure principle
- Enhances the aggregation principle
- Requires specific disclosures about:
 - Methodology for applying Interpretation 46(R)
 - Whether the enterprise has provided financial or other support to a VIE that it was not contractually required to provide
 - Terms of arrangements that could require the enterprise to provide financial support to a VIE
 - Restrictions on assets recognized from applying Interpretation 46(R)
 - How the enterprise's maximum exposure to loss is determined, and if the maximum exposure is not representative of its exposure to loss, how the estimated exposure to loss is determined



Statement 140 and FIN 46(R): Proposed Amendments

Transition and Effective Date

- Both are proposed to be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2009

Statement 140:

- Applied to transfers occurring on or after the effective date
- All existing QSPE's must be evaluated for consolidation in accordance with the applicable consolidation guidance on the effective date. Apply transition guidance provided in the pronouncement that requires consolidation.

Interpretation 46(R):

- Applied to all potential and existing interests in VIEs on the effective date
- If the initial application results in consolidation
 - The enterprise shall recognize and measure all assets and liabilities of the newly consolidated entity in accordance with existing guidance
 - Any adjustments that would have been in earnings should be recognized as a cumulative effect adjustment to retained earnings.



Statement 140 and FIN 46(R): Effect on International Convergence

- The IASB currently has derecognition and consolidation projects on its agenda
 - IASB timeline is different than the FASB's
 - Current FASB projects are meant to expeditiously improve financial reporting
- Ultimately, the two Boards will seek to issue converged derecognition and consolidation standards



Statement 140 and Interpretation 46(R) Disclosure FSP

- Requires improved disclosures by **PUBLIC** entities (enterprises) until the pending amendments to Statement 140 and Interpretation 46(R) are effective
- Disclosures are similar to those being proposed as part of the Statement 140 and Interpretation 46(R) projects
- Intended to expeditiously meet financial statement user needs for greater transparency regarding:
 - A transferor's continuing involvement with transferred financial assets
 - An enterprise's involvement with variable interest entities
- Effective for reporting periods (interim and annual) beginning with the first reporting period that ends after the FSP is issued



Statement 140 and Interpretation 46(R) Disclosure FSP

- Requires enhanced disclosures for public entities (enterprises) that are
 - Currently subject to the disclosure requirements in Statement 140 and Interpretation 46(R)
 - A sponsor of a variable interest entity that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest)
 - An enterprise that holds a significant variable interest in a qualifying SPE but was not the transferor of financial assets to the qualifying SPE



Questions?

