

PROPOSED FASB STAFF POSITION

No. FIN 46-c

Title: Impact of Kick-Out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8(c) of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*

Comment Deadline: October 3, 2003

Q—Paragraph 8(c) of Interpretation 46 requires fees to the decision maker (if there is a decision maker) to be included in the calculation of expected residual returns, unless the fees are excluded from paragraph 8(c) by other guidance. Does an investor's or another party's ability to remove the decision maker (that is, kick-out rights), with or without cause, enable the decision maker's fees to be excluded from the computation of expected residual returns as required by paragraph 8(c)?

A—No. The existence of kick-out rights does not affect the status of a decision maker in the application of paragraph 8(c). That is, the ability of investors or other parties to remove a decision maker does not obviate the requirement to include fees to the decision maker in the computation of expected residual returns (in accordance with paragraph 8(c)) and in the evaluation of whether the decision maker is the primary beneficiary of the entity.

The paragraph 8(c) requirement results in a consideration, in all cases, of whether the decision maker receives a majority of the entity's expected residual returns in the determination of the primary beneficiary calculated pursuant to paragraph 14 of Interpretation 46.

Effective Date and Transition

The guidance in this FSP is effective for all arrangements to which Interpretation 46 has been or will be applied. If the application of the guidance in this FSP results in changes to previously reported information, the cumulative effect of the accounting change shall be reported as of the beginning of the quarter in which the final FSP is posted to the FASB website. (The quarter in which the final FSP is posted is expected to be the quarter beginning October 1, 2003 for a calendar-year entity.)

The provisions of this FSP may be applied by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated.

For enterprises that have not yet applied the provisions of Interpretation 46 to variable interests in variable interest entities in accordance with the effective date provisions of paragraph 27 of Interpretation 46, the guidance should be applied as a part of its adoption.