

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members

**From:** Statement 140 and Interpretation 46(R)  
Teams  
(Yust, ext. 442)

**Subject:** Minutes of the June 4, 2008 Board  
Meeting: Statement 140 and  
Interpretation 46(R) – Disclosures

**Date:** June 23, 2008

**cc:** Golden, MacDonald, Bielstein, Donoghue, Lusniak, Mayer, Zecher, Barker,  
Roberge, Nickell, Wyatt, C. Smith, Cizek, Reager, Gabriele, Glotzer,  
Mechanick, Sutay, Posta, Chookaszian, Cosper, Leisenring, Stocklosa,  
Proestakes, Lott, Klimek, Allen, 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, Interpretation, or FASB Staff Position.*

Topic: Statement 140 and Interpretation 46(R)—  
Disclosures

Basis for Discussion: Board Memorandum No. 91 and Appendices

Length of Discussion: 9:40 a.m. to 10:40 a.m.

Attendance:

Board members present: Batavick, Crooch, Herz, Linsmeier, Seidman, L. Smith, and Young

Board members absent: None

Staff in charge of topic: Donoghue, Mayer

Other staff at Board table: FASB: Golden, Barker, Roberge, Zecher, Nickell, Wyatt, Lusniak, C. Smith, Cizek, and Yust

## Summary of Decisions Reached

At the June 4, 2008 meeting, the Board discussed enhancements to the existing disclosure requirements in both FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. Subject to drafting changes, the Board voted on the following disclosure amendments:

### **Statement 140**

1. To provide an overall objective for the disclosure requirements
2. To include aggregation guidance for similar transfers
3. To require additional information about a transferor's calculations of gains and losses when that transfer involves a special-purpose entity (SPE), a transferor's continuing involvement in transferred financial assets, and liquidity, guarantee, and other commitments provide by third parties, and other amendments
4. To provide a definition of *continuing involvement* in the glossary
5. To require that the paragraph 17(c) disclosure apply to all transfers within the scope of Statement 140
6. To eliminate explicit references to the methodology used in determining fair value as described in paragraphs 17(h)(1) and 17(i)(1)
7. To eliminate footnote 10, which provides an exception for the disclosures required by paragraph 17(i)(4) if the transferor's only continuing involvement is servicing.

### **Interpretation 46(R)**

1. To provide an overall objective for the disclosure requirements.
2. To include aggregation guidance for similar variable interests.
3. To require disclosure of methodologies and processes for applying Interpretation 46(R), and other amendments.
4. To clarify that the disclosures for an enterprise that holds a significant variable interest should be provided (a) when the variable interest is significant to the variable interest entity or (b) when the variable interest is significant to the enterprise.
5. A sponsor that holds a variable interest should be required to disclose the same information that is required for an enterprise that holds a significant variable interest in a variable interest entity.
6. To remove the exception from providing the disclosures required by paragraph 23 of the Interpretation if the primary beneficiary also holds a majority voting interest.
7. To remove the requirement for significant variable interest holders to disclose when their involvement began with the variable interest entity.

### Objectives of Meeting:

The objective of the meeting was to discuss enhancements to the existing disclosure requirements related to transfers of financial assets within the scope of Statement 140 and variable interest entities within the scope of Interpretation 46(R). The objective of the meeting was met.

### Matters Discussed and Decisions Reached:

#### **Issue 1: Disclosure Objective**

1. Ms. Donoghue stated that the disclosure enhancements for both Statement 140 and Interpretation 46(R) may be the most significant and important action undertaken by the Board related to the projects on transfers of financial assets and variable interest entities.
2. Mr. Yust stated that the suggested disclosure enhancements were based on identified disclosure gaps from comparing input received from financial statement users, SEC disclosure requirements, existing or contemplated disclosure requirements of other standard setters (including the IASB), Senator Reed's letter to the FASB, and various other studies and articles on the relevant existing disclosure requirement(s) in U.S. GAAP, if any.
3. Mr. Mayer stated that in developing the staff's recommendations to enhance the disclosures required by Statement 140 and Interpretation 46(R), the staff gave the greatest consideration to comments received from financial statement users. In addition, the staff considered how Statement 140 and Interpretation 46(R) are applied, including the proposed amendments to the pronouncements.
4. **Staff Recommendation:** The staff recommended that an overall disclosure objective should be provided in both Statement 140 and Interpretation 46(R).
5. **Board Vote:** The Board unanimously voted to include an overall disclosure objective in both Statement 140 and Interpretation 46(R).

6. **Board Comments:** Ms. Seidman questioned whether the disclosure objectives were needed in addition to the prescriptive disclosure enhancements proposed by the staff for Statement 140 and Interpretation 46(R). Ms. Donoghue noted that the staff could only write disclosure requirements based on existing information and structures currently in the market. However, she believed an objective was necessary to address future types of developments and innovation in the market.
7. Mr. Linsmeier noted that the disclosure objectives required information about the financial effect of restrictions on transferred financial assets or a consolidated variable interest entity's assets and liabilities. However, the actual disclosure requirements proposed by the staff did not require quantitative information about the amount of the restrictions on both the assets and liabilities. The staff stated that it would clarify that quantitative information was required about restrictions on both the assets and liabilities of a consolidated variable interest entity and the transferred financial assets and associated liabilities of a transferor.

## **Issue 2: Aggregation of Similar Transfers and Similar Variable Interests**

8. **Staff Recommendation:** The staff recommended providing an aggregation principle to describe whether and how to aggregate disclosures for similar transfers of financial assets in Statement 140 and similar variable interest entities in Interpretation 46(R).
9. **Board Vote:** The Board unanimously voted to include an aggregation principle in both Statement 140 and Interpretation 46(R).
10. **Board Comments:** Mr. Linsmeier was concerned that the aggregation principles only provided specific criteria to be considered in determining whether and how to aggregate similar transfers of financial assets or variable interest entities. Mr. Mayer stated that the listed criteria were only intended to provide examples of the information to be considered by the enterprise. He stated that the staff would clarify that an entity should not limit its consideration of relevant quantitative and qualitative information to the example criteria listed.

### **Issue 3: Amendments to the Statement 140 Disclosure Requirements**

11. **Staff Recommendation:** The staff recommended that enhancements to the disclosures in Statement 140 should include the information summarized on page 2 of the Board meeting handout. However, the Board was asked to vote on the disclosures that have been included as an appendix to the minutes.
12. **Board Vote:** The Board unanimously voted to include the recommended disclosures, subject to drafting changes.
13. **Board Comments:** None.

### **Issue 4: Definition of Continuing Involvement**

14. **Staff Recommendation:** The staff recommends that the term *continuing involvement* should be explicitly defined in the glossary to Statement 140 in order to clarify the proposed requirements to disclose information related to a transferor's continuing involvement. The proposed definition is included on page 2 of the Board meeting handout.
15. **Board Vote:** The Board unanimously voted to include a definition of *continuing involvement* in the glossary to Statement 140, subject to drafting changes.
16. **Board Comments:** Mr. Linsmeier was concerned with including the broad term *derivative instruments* as an example of continuing involvement. He noted that derivative instruments could be very different from the transferred financial assets and may not represent continued involvement in the transferred financial assets, so he believed the term needed to be clarified. Mr. Golden stated that the example would be clarified in drafting and proposed clarifying it to be derivative instruments that have risks that are identical or similar to the transferred financial assets that were contemplated in the initial transfer.
17. Mr. Leisenring stated that the requirement to disclose information about continuing involvement, such as continuing involvement relating to a derivative, assumes that history is important so another entity could be in the exact same economic position

as the transferor and not be required to disclose the additional information. Ms. Donoghue noted that users had told the staff that history absolutely matters for transferred financial assets. Ms. Seidman added that the disclosures related to continuing involvement were only required for transfers to a SPE, not simple transfers, so the disclosures served as a backstop if an entity was not required to consolidate the SPE.

18. Mr. Batavick questioned whether the exception for standard representations and warranties had any unintended consequences. Mr. Herz stated that he believed standard representations and warranties only related to the state of the transferred financial assets at the point of transfer and not to the state of the transferred financial assets in the future. Mr. Young questioned whether the exception was even needed. He noted the volume of assets that recently were repurchased from SPEs due to failing standard representations and warranties and stated that such information should be disclosed. Mr. Mayer stated that a transferor was required to disclose cash flows between the SPE and the transferor, so he believed that information would be provided.

#### **Issue 5: Paragraph 17(c) of Statement 140**

19. **Staff Recommendation:** The staff noted that this disclosure requirement was written primarily to address restrictions on assets that were set aside in an in-substance defeasance. The staff recommended the phrase “after the effective date of Statement 125” be deleted and the disclosure clarified to require the nature of restrictions on all transferred financial assets and the associated liabilities that are set aside solely for satisfying a specific obligation.
20. **Board Vote:** The Board unanimously voted to support the staff recommendation.
21. **Board Comments:** Ms. Seidman questioned whether the requirement should be incorporated into the existing disclosure requirement in paragraph 17(a) related to collateral. However, Mr. Linsmeier stated that he did not believe all situations

where the assets were set aside for satisfying a specific obligation would be classified as collateral.

#### **Issue 6: Methodology Used in Determining Fair Value**

22. **Staff Recommendation:** The staff stated that paragraphs 17(h)(1) and 17(i)(1) of Statement 140 currently provide examples of the methodology by which an interest that continues to be held by the transferor is measured at fair value. The staff recommended that these examples be removed as they are no longer necessary following the issuance of FASB Statement No. 157, *Fair Value Measurements*.
23. **Board Vote:** The Board unanimously voted to support the staff recommendation.
24. **Board Comments:** None.

#### **Issue 7: Footnote 10 of Statement 140, Exception for Servicing**

25. **Staff Recommendation:** The staff noted that footnote 10 of Statement 140 currently provides an exception from the disclosures required by paragraph 17(i)(4) if the transferor's only continuing involvement is servicing. Based on constituent feedback and the difficulty in defining servicing, the staff recommended that footnote 10 be deleted.
26. **Board Vote:** The Board unanimously voted to support the staff recommendation.
27. **Board Comments:** None.

#### **Issue 8: Amendments to the Interpretation 46(R) Disclosure Requirements**

28. **Staff Recommendation:** The staff recommended that enhancements to the disclosures in Interpretation 46(R) should include the information summarized on page 3 of the Board meeting handout. However, the Board was asked to vote on the disclosures that have been included as an appendix to the minutes.
29. **Board Vote:** The Board unanimously voted to include the recommended disclosures, subject to drafting. In addition, the Board unanimously voted to

require a sponsor that holds a variable interest to provide the same disclosures that are required to be provided by a significant variable interest holder.

30. **Board Comments:** Ms. Seidman questioned whether the disclosure requirement for a significant variable interest holder to divulge information about the expected exposure to loss was the same as the expected loss calculation used to determine a primary beneficiary. Mr. Roberge clarified that the disclosure requirement was not the same as the expected loss calculation, but, rather, it was the enterprise's estimate of the cash outflow it expects to incur.
31. Mr. Linsmeier stated that he believed a sponsor should always be assumed to have a significant variable interest in a variable interest entity because it will generally always have some power and some benefit related to the SPE. However, because the variable interest may not be currently significant, a sponsor may not be deemed to have a significant variable interest, even if it could become significant in the future. As a result, a sponsor should have to disclose the same information as a significant variable interest holder. Mr. Smith stated that it could be difficult to define a sponsor. However, Ms. Seidman noted that the term *sponsor* had been defined before in other SEC literature.
32. Ms. Seidman noted that requiring a sponsor to always provide the disclosures required by a significant variable interest holder would provide a backstop that provides more information about any implicit guarantees, including representation risk, that the sponsor might have. However, Mr. Nickell noted that some sponsors may not have a variable interest. Mr. Herz and Mr. Linsmeier questioned whether there should be a presumption that a sponsor always has a variable interest.

### **Issue 9: Significant Variable Interest Entities**

33. **Staff Recommendation:** The staff stated that there was diversity in practice about how to assess whether an enterprise has a significant variable interest. Some companies assess whether the variable interest is significant by evaluating whether the (a) variable interest is significant to the variable interest entity, (b) variable interest is significant to the enterprise, or (c) both. The staff recommends that an enterprise should provide the disclosures required for a significant variable interest entity under either scenario.
34. **Board Vote:** The Board unanimously voted to support the staff recommendation.
35. **Board Comments:** Mr. Young stated that another alternative was to drop the term *significant* and only limit the disclosure requirements based on materiality. Mr. Golden stated that he believed significant was a lower threshold than material. He also believed that the criteria in paragraphs 22D and 24 of the staff's proposed disclosures, such as maximum exposure to loss, would be criteria considered by an enterprise in determining whether a variable interest was significant. Mr. Smith stated that the staff should clarify the criteria that an enterprise should consider when determining if a variable interest is significant.

### **Issue 10: Exception to the Interpretation 46(R) Disclosures for Enterprises That Also Hold a Majority Voting Interest**

36. **Staff Recommendation:** The staff noted that paragraph 23 of Interpretation 46(R) currently provides an exception for the required disclosures for a primary beneficiary if the primary beneficiary also holds a majority of the voting interests in the variable interest entity. The staff recommended that this exemption and the related footnote be deleted.
37. **Board Vote:** The Board unanimously voted to support the staff recommendation.
38. **Board Comments:** None.

**Issue 11: When a Significant Variable Interest Holder’s Involvement Began with a Variable Interest Entity**

- 39. **Staff Recommendation:** The staff noted that paragraph 24 of Interpretation 46(R) currently requires a significant variable interest holder to disclose when its involvement with the variable interest entity began. The staff does not believe this disclosure currently provides meaningful information and recommends it be deleted.
  
- 40. **Board Vote:** The Board unanimously voted to support the staff recommendation.
  
- 41. **Board Comments:** Ms. Seidman noted that for the information to be useful, it would have to be disclosed for each variable interest entity.

Follow-up Items:

Ms. Seidman requested that the staff make the suggested edits by the Board and distribute the proposed disclosures as part of the minutes to the Board meeting.

General Announcements:

None.

## Appendix A

### Statement 140 Disclosures

*This appendix provides the staff's proposed changes to the disclosure requirements in Statement 140 to facilitate constituents' understanding of the disclosures that were discussed at the June 4, 2008 FASB Board meeting; it is not intended to reflect the views of the FASB or its staff. All decisions of the Board are tentative, may change at future Board meetings, and do not change current accounting and reporting requirements. Decisions of the Board become final only after extensive due process and deliberation.*

- 16A. The principle objectives of the disclosures required by paragraph 17 are to provide users of the financial statements with an understanding of:
- a. The transferor's continuing involvement in financial assets that it has transferred to an SPE<sup>5a</sup>
  - b. The nature and financial effect of restrictions on the transferor's assets
  - c. How servicing assets and servicing liabilities are reported under this Statement
- 16B. Disclosures required by this Statement may be reported in the aggregate for similar transfers, if separate reporting would not add material information. A transferor shall disclose how similar transfers are aggregated and must distinguish between those that are accounted for as sales and those that are accounted for as secured borrowings. In determining whether to aggregate the transfer, the reporting entity should consider quantitative and qualitative information about the characteristics of the financial assets transferred. For example consideration should be given, but not limited, to the following:
- a. The transferor's continuing involvement
  - b. The risks inherent in the transferred financial assets that have been transferred or retained
  - c. The types of financial assets transferred
17. In addition to the disclosures required by other standards, an entity shall disclose the following:
- a. If assets are restricted solely to satisfy scheduled payments of a specific obligation, the carrying amount of those assets and associated liabilities, including a description of the nature of restrictions placed on the assets.
  - ab. For collateral:
    - (1) If the entity has entered into repurchase agreements or securities lending transactions, its policy for requiring collateral or other security
    - (2) If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15(a), the carrying amount and classification of those assets as of the date of the latest statement of financial position presented
    - (3) If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, the fair value as of the date of each statement of financial

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<sup>5a</sup> For purposes of the disclosure requirements in the term SPE is expected to include any entity whose activities are primarily related to securitization or other forms of asset-backed financings.

position presented of that collateral and of the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral.

- b~~c~~. If debt was considered to be extinguished by in-substance defeasance under the provisions of FASB Statement No. 76, *Extinguishment of Debt*, prior to the effective date of Statement 125,<sup>6</sup> a general description of the transaction and the amount of debt that is considered extinguished at the end of the period so long as that debt remains outstanding.
- ~~e. If assets are set aside after the effective date of Statement 125 solely for satisfying scheduled payments of a specific obligation, a description of the nature of restrictions placed on those assets.~~
- d. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, a description of those items and the reasons why it is not practicable to estimate their fair value.
- e. For all servicing assets and servicing liabilities:
  - (1) Management's basis for determining its classes of servicing assets and servicing liabilities (paragraph 13A).
  - (2) A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities. (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.)
  - (3) The amount of contractually specified servicing fees (as defined in the glossary), late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income.
- f. For servicing assets and servicing liabilities subsequently measured at fair value:
  - (1) For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:
    - (a) The beginning and ending balances
    - (b) Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)
    - (c) Disposals
    - (d) Changes in fair value during the period resulting from:
      - (i) Changes in valuation inputs or assumptions used in the valuation model

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<sup>6</sup>Refer to footnote 11 to paragraph 19.

- (ii) Other changes in fair value and a description of those changes
  - (e) Other changes that affect the balance and a description of those changes
- (2) A description of the valuation techniques or other methods used to estimate the fair value of servicing assets and servicing liabilities. If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2), is also encouraged, but not required, to disclose a description of the valuation techniques, as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)
- g. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:
  - (1) For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:
    - (a) The beginning and ending balances
    - (b) Additions (through purchases of servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)
    - (c) Disposals
    - (d) Amortization
    - (e) Application of valuation allowance to adjust carrying value of servicing assets
    - (f) Other-than-temporary impairments
    - (g) Other changes that affect the balance and a description of those changes
  - (2) For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period if it is practicable to estimate the value
  - (3) A description of the valuation techniques or other methods used to estimate fair value of the servicing assets and servicing liabilities. If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2), is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)

- (4) The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63
  - (5) The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented.
- h. If the entity has ~~securitized~~ transferred financial assets to a SPE during any period presented and accounts for that transfer as a sale, ~~for each major asset type (for example, mortgage loans, credit card receivables, and automobile loans):~~
- (1) Its accounting policies for initially measuring ~~the interests that continue to be held by the transferor~~ assets obtained (including the transferor's beneficial interest and any other interests in the transferred financial assets) and liabilities incurred in the sale, if any, and servicing assets or servicing liabilities, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value of those assets and liabilities.
  - (2) The characteristics of the transfer securitizations (including a description of the transferor's continuing involvement with the transferred financial assets, if any, including, but not limited to, servicing, recourse, and restrictions on interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations, including qualitative and quantitative information about how the gain or loss was determined.
  - (3) The key inputs and assumptions<sup>7</sup> used in measuring the fair value of interests that continue to be held by the transferor ~~and servicing assets or servicing liabilities, if any, at the time of transfer securitization~~ (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets,<sup>8</sup> and anticipated credit losses, if applicable).
  - (4) Cash flows between the ~~securitization~~ SPE and the transferor, ~~unless reported separately elsewhere in the financial statements or notes~~ (including proceeds from new transfers securitizations, proceeds from collections reinvested in revolving-period transfers securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests that continue to be held by the transferor).
- i. If the ~~entity has interests that continue to be held by the~~ transferor has any continuing involvement in financial assets that it has ~~securitized~~ transferred to a SPE (including those that are accounted for sales and those that are accounted

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<sup>7</sup>If an entity has made multiple ~~securitizations~~ transfers of the same major asset type during a period, it may disclose the range of assumptions.

<sup>8</sup>The weighted-average life of prepayable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.

~~for as secured borrowings) or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, for each major asset type (for example, mortgage loans, credit card receivables, and automobile loans):~~

- ~~(1)~~ Qualitative information (and quantitative information when applicable) about the transfer that provide users with sufficient information to assess the extent that the risks inherent in the transferred financial assets (including, but not limited to, credit risk, interest rate risk, and other risks) have been transferred or retained (giving consideration to both explicit and implicit arrangements), including:
  - (b) The transferor's continuing involvement with the transferred assets
  - (c) The carrying amount and classification of assets and associated liabilities recognized in the transferor's statement of financial position as a result of the transfer.
  - (d) Terms of any arrangements that could require the transferor to provide financial support (for example, liquidity commitments and obligations to purchase assets from the SPE) to the transferee or its beneficial interest holders, including information about any events or circumstances that could expose the transferor to loss.
  - (e) Whether the transferor has provided non-contractual financial or other support to the transferee or its beneficial interest holders, during the periods presented, including:
    - (i) The type and amount of non-contractual financial support, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support
    - (ii) The primary reasons for providing the voluntary support.
  - (f) Liquidity, guarantees, and other commitments provided by third parties related to the transferred financial assets.
- ~~(1)-(2)~~ Its accounting policies for subsequently measuring those interests any assets or liabilities that relate to the continuing involvement, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value of those assets and liabilities.
- ~~(2)-(3)~~ The key inputs and assumptions used in subsequently measuring the fair value of those interests any assets or liabilities that relate to the transferor's continuing involvement (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses,<sup>9</sup> if applicable)<sup>9a</sup>.

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<sup>9</sup>Expected static pool losses can be calculated by summing the actual and projected future credit losses and dividing the sum by the original balance of the pool of assets.

<sup>9a</sup> The timing and amount of future cash flows for ~~retained~~ interests that continue to be held by a transferor in securitizations transfers are commonly uncertain, especially if those interests are subordinate to more senior beneficial interests. Thus, estimates of future cash flows used for a fair value measurement depend heavily on assumptions about default and prepayment of all the assets securitized, because of the implicit credit or prepayment risk enhancement arising from the subordination.

- ~~(3)~~(4) A sensitivity analysis or stress test showing the hypothetical effect on the fair value of ~~those interests~~ any assets or liabilities that relate to a transferor's continuing involvement ~~(including any servicing assets or servicing liabilities)~~ of two or more unfavorable variations from the expected levels for each key assumption that is reported under ~~(23)~~ above, independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test.
- (5) Cash flows between a SPE and the transferor, (including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests that continue to be held by the transferor).
- ~~(4)~~(6) For the transferred assets and any other financial assets that it manages together with them:<sup>10</sup>
- (a) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period
  - (b) The carrying amount outstanding for the associated liabilities recognized in the statement of financial position, if applicable.
  - (c) Delinquencies at the end of the period
  - (d) Credit losses, net of recoveries, during the period.

(Disclosure of average balances during the period is encouraged, but not required.)

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<sup>10</sup>~~Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.~~

## Appendix B

### Interpretation 46(R) Disclosures

*This appendix provides the staff's proposed changes to the disclosure requirements in Interpretation 46(R) to facilitate constituents' understanding of the disclosures that were discussed at the June 4, 2008 FASB Board meeting; it is not intended to reflect the views of the FASB or its staff. All decisions of the Board are tentative, may change at future Board meetings, and do not change current accounting and reporting requirements. Decisions of the Board become final only after extensive due process and deliberation.*

- 22A. The principle objectives of the disclosures required by paragraphs 22C–26 are to provide users of financial statements with an understanding of:
- a. The judgments and assumptions made by the enterprise in determining whether the enterprise must consolidate or disclose information about its involvement in the variable interest entity.
  - b. The nature and financial effect of restrictions on the variable interest entity's assets and liabilities included in the consolidated reporting group
  - c. The nature of, and changes in, the risks associated with the enterprise's involvement with the variable interest entity.

An enterprise should consider these overall objectives in providing the disclosures required by this Interpretation. To achieve these objectives, an enterprise may need to supplement the disclosures required by paragraphs 22C–26 depending on the facts and circumstances surrounding the variable interest entity and the enterprise's interest in that entity. Accordingly, if any of the disclosures provided in the following paragraphs are not representative of the enterprise's economics and/or exposure to risk, the enterprise shall provide further information, as needed.

- 22B. Disclosures about variable interest entities may be reported in the aggregate for similar entities, if separate reporting would not provide beneficial incremental information. An enterprise shall disclose how similar entities are aggregated and shall distinguish between variable interest entities that are not consolidated (because the enterprise has a significant variable interest but is not the primary beneficiary) and those that are consolidated. In determining whether to aggregate variable interest entities, the reporting entity should consider quantitative and qualitative information about the different risk and reward characteristics of each variable interest entity and the importance of each variable interest entity to the reporting entity.
- 22C. An enterprise that has a variable interest in a variable interest entity, shall disclose:
- a. Its methodology and process for determining whether the enterprise is (or is not) the primary beneficiary or a significant variable interest holder of a variable interest entity.



23. In addition to disclosures required by other standards, the primary beneficiary of a variable interest entity shall disclose the following (~~unless the primary beneficiary also holds a majority voting interest~~):<sup>17</sup>
- ~~a. The nature, purpose, size, and activities of the variable interest entity~~
  - ~~ba. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations~~ The carrying amount and classification of the variable interest entity's assets and liabilities in the statement of financial position that are consolidated pursuant to this Interpretation
  - ~~b. If the variable interest entity's assets can only be used to settle obligations of the variable interest entity:~~
    - ~~(1) The carrying amount and classification of the variable interest entity's assets and associated liabilities~~
    - ~~(2) Qualitative information about restrictions on those assets.~~
  - c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary
  - d. Quantitative and qualitative information about liquidity, guarantees, and other commitments to the variable interest entity by third parties
  - e. The fair value of the variable interest entity's financial assets and financial liabilities that are consolidated pursuant to this Interpretation (separately from those disclosed pursuant to Statement 107).
24. In addition to disclosures required by other standards, An enterprise that holds a significant variable interest in a variable interest entity or is a sponsor that holds a variable interest in the variable interest entity, but is not the variable interest entity's primary beneficiary, shall disclose:
- ~~a. The nature of its involvement with the variable interest entity and when that involvement began~~
  - ~~b. The nature, purpose, size, and activities of the variable interest entity;~~
  - ~~ea. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity, including how the maximum exposure is determined and the significant sources of the enterprise's exposure to the variable interest entity. If there is no limitation to the enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity, that fact shall be disclosed.~~
  - ~~b. The enterprise's estimated exposure to loss or range of that loss if it believes that the amount of the maximum exposure to loss is not representative of the entity's actual exposure. Accordingly, the enterprise shall disclose the methodology used to determine the estimated loss exposure. Such a description shall include qualitative and quantitative information, such as:~~

<sup>17</sup> ~~A variable interest entity may issue voting equity interests, and the enterprise that holds a majority voting interest also may be the primary beneficiary of the entity. If so, the disclosures in paragraphs 23 and 27 are not required.~~

- (1) Significant factors considered, assumptions made, and primary risks of the variable interest entity
    - (2) Liquidity, guarantees, and other commitments to the variable interest entity by third parties
  - c. The carrying amount and classification of the enterprise's variable interest(s) in the statement of financial position related to the enterprise's involvement with the variable interest entity.
- 25. Disclosures required by Statement 140 about a variable interest entity shall be included in the same note to the financial statements as the information required by this Interpretation. ~~Information about variable interest entities may be reported in the aggregate for similar entities if separate reporting would not add material information.~~
- 25A. The disclosures provided by this Interpretation may be provided in more than one note to the financial statements, subject to paragraph 25, as long as the objectives in paragraph 22A are met. If the disclosures are provided in more than one note to the financial statements, the enterprise shall provide a cross-reference to the other notes to the financial statements that provide the disclosures prescribed in this Interpretation.
- 25B. Quantitative disclosures required by this Interpretation are encouraged to be presented using a tabular format.
- 26. An enterprise that does not apply this Interpretation to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) shall disclose the following information:
  - a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available
  - b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)
  - c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)
  - d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented. However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.