

**Proposed FSP—Reporting variable interests in specified assets of variable interest entities as separate variable interest entities under paragraph 13 of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. (Comment Deadline: May 26, 2003)**

Q—Should a specified asset (or group of assets) of a variable interest entity and a related liability secured only by the specified asset or group be treated as a separate variable interest entity (as discussed in paragraph 13 of Interpretation 46) if other parties have rights or obligations related to the specified asset or to residual cash flows from the specified asset?

A—A specified group of assets of a variable interest entity and any related claims against those assets (including liabilities and equity interests) are treated as a separate variable interest entity only if they are effectively separate from the remainder of the entity. That condition does not exist if the interests in the specified assets and related claims cannot be reported separately without accounting allocations.

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.

Appendix A to Interpretation 46 includes a hypothetical computation of expected losses and expected residual returns of a variable interest entity that has a very simple structure that does not include any fees. In that illustration, the expected losses are equal to the expected residual returns. However, if a variable interest entity had paid the fees described in items (c) and (d), the expected residual returns of the entity would have been larger than the expected losses, possibly much larger, because the total amount of the fees would have been included as a part of the expected residual returns. Because the total amount of fees of the types described in items (c) and (d) is included in expected residual returns, a receiver of those fees may receive a majority of a variable interest entity's expected residual returns.

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