

PROPOSED FASB STAFF POSITION

No. FIN 46-e

Title: Effective Date of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, for Certain Interests Held by a Public Entity

~~Comment Deadline:~~ October 20, 2003

Revised Comment Deadline: October 7, 2003

The Board directed the FASB staff to issue this FASB Staff Position (FSP)¹ to (a) defer the effective date for applying the provisions of Interpretation 46 to interests held by a public entity² in certain variable interest entities or potential variable interest entities and (b) require an entity that defers the application of Interpretation 46 in accordance with this FSP to make certain disclosures.

A public entity need not apply the provisions of Interpretation 46 to interests held in a variable interest entity or potential variable interest entity until the end of the first interim or annual period ending after December 15, 2003 (as of December 31, 2003, for an entity with calendar year-end quarters), if all of the following four conditions are met:

1. The public entity acquired its interests in a variable interest entity or potential variable interest entity before February 1, 2003
2. The assets of the variable interest entity or potential variable interest entity are predominantly nonfinancial³
3. The variable interest entity or potential variable interest entity was not specifically created by

¹ The Board directed the FASB staff to issue this guidance in the form of an FSP rather than an FASB Technical Bulletin. Although the delay of an effective date is identified as one of the uses of a Technical Bulletin, procedures for issuing an FSP provide for ease of distribution, for retrievability, and for the expansion of the exposure period from the 15 days provided for by Technical Bulletins to 30 days.

² The term *public entity* is defined in paragraph 395 of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

³ *Nonfinancial assets* are assets other than *financial assets* as defined in paragraph 364 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. *Financial assets* are cash, evidence of an ownership interest in an entity, or a contract that conveys to a second entity a contractual right (a) to receive cash or another financial instrument from a first entity or (b) to exchange other financial instruments on potentially favorable terms with the first entity.

or for the public entity to undertake a narrow and well-defined objective.⁴

4. The determination of whether the entity is a variable interest entity or whether the public entity is the variable interest entity's primary beneficiary has not been completed as of the issuance of the financial statements for the interim or annual period beginning after June 15, 2003.

Examples of variable interest entities or potential variable interest entities to which this deferral may be applicable if all of the conditions in this FSP for deferral are met are (a) suppliers to the public entity, (b) franchisees or dealers of the public entity's products, and (c) borrowers from the public entity that have been subject to a troubled debt restructuring event. The deferral is not intended to apply to a variable interest entity or potential variable interest entity that would commonly have been considered a special-purpose entity, such as (a) a lessor for a single party lease(s), (b) an entity specifically created to acquire nonfinancial assets from the public entity (other than franchisees or dealers), (c) an entity designed to hold financial assets, and (d) an entity designed to convert nonfinancial assets to financial assets.

Disclosures

A public entity that defers the application of Interpretation 46 to variable interests in one or more variable interest entities or potential variable interest entities under the provisions of this FSP shall disclose the following information about such entities:

- a. The number of entities to which the application of Interpretation 46 is being delayed and the reason for the delay
- b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the public entity's involvement with the entity(ies)
- c. The public entity's maximum exposure to loss because of its involvement with the entity(ies)
- d. The amount of income, expense, purchases, or sales, or some other measure of activity between the public entity and the entity(ies) for all periods presented. However, if that

⁴ The application of this condition of the deferral requires judgment. The intention of this condition is to exclude from the scope of this deferral entities that generally were considered to be special purpose entities before Interpretation 46 was issued.

information is not readily available for prior periods that are presented in the financial statements for which this requirement applies, the information for those prior periods is not required.

These disclosures are required in the public entity's financial statements issued between the original effective date of Interpretation 46 and the date the public entity issues financial statements applying Interpretation 46 to those interests subject to deferral under this FSP.

Effective Date

The guidance in this FSP is effective for financial statements issued after the final FSP is posted to the FASB website.