

PROPOSED FASB STAFF POSITION

No. FIN 46(R)-d

Title: Application of FASB Interpretation No. 46(R) to Investment Companies

Comment Deadline: December 22, 2006

Introduction

1. This FASB Staff Position (FSP) addresses the application of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, by an enterprise that accounts for its investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*.

Background

2. Paragraph 4(e) of Interpretation 46(R) states that “an enterprise subject to SEC Regulation S-X, Rule 6-03(c)(1) shall not consolidate any entity that is not also subject to that same rule.” Rule 6-03(c)(1) applies to companies registered under the Investment Company Act of 1940 (registered investment companies) and business development companies.

3. Paragraph 36 of Interpretation 46(R) provides an indefinite deferral of its effective date for investment companies that are not subject to Rule 6-03(c)(1) but are currently accounting for their investments in accordance with the specialized accounting guidance in the investment companies Guide. Paragraph 36 of Interpretation 46(R) further provides that following AICPA issuance of an SOP to clarify the scope of the Guide, the Board will consider modifying paragraph 4(e) of the Interpretation to provide an exception for companies that apply the Guide as revised by the SOP.

4. The AICPA has finalized Statement of Position XX-XX, *Clarification of the Scope of the Audit and Accounting Guide, Investment Companies, and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. SOP XX-XX provides criteria for determining whether an entity is within the scope of the Guide. This FSP amends

Interpretation 46(R) to provide an exception to the scope of the Interpretation for companies within the scope of the revised Guide.

5. When deliberating this amendment, the Board considered whether to clarify the consolidation requirements for an investment company holding a controlling interest in another investment company. The Board is aware that in practice some controlled investment companies are consolidated by investment companies and others are not. The Board decided not to prescribe additional consolidation guidance. The Board believes that the investment objectives of the parent investment company should determine whether the investment company should consolidate another investment company that it controls. Thus, certain cases would require consolidation, while others would not.

6. The Board believes that the guidance in SOP XX-XX on the use of investment company accounting and on the retention of investment company accounting at the parent company level will be effective in limiting the use of the specialized accounting in the Guide to appropriate facts and circumstances. The Board therefore concluded that allowing practice to continue to apply judgment, based on the investment objectives of the parent investment company, about whether an investment company should consolidate another investment company that it controls is appropriate.

FASB Staff Position

7. Paragraph 4(e) of Interpretation 46(R) is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

Investments accounted for at fair value in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*, are not subject to consolidation according to the requirements of this Interpretation.^a ~~An enterprise subject to SEC Regulation S-X, Rule 6-03(c)(1) shall not consolidate any entity that is not also subject to that same rule.~~

^a AICPA Statement of Position XX-XX, *Clarification of the Scope of the Audit and Accounting Guide, Investment Companies, and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, discusses the circumstances in which the specialized accounting in the Guide shall not be retained by a noninvestment company parent or equity method investor of an investment company. In those cases, Interpretation 46(R) applies to the investments held by the investment company for the purposes of the parent or equity method investor's financial statements.

Effective Date

8. Paragraph 36 of Interpretation 46(R) is amended as follows:

The effective date for applying the provisions of Interpretation 46 or this Interpretation is deferred for investment companies that are not subject to SEC Regulation S-X, Rule 6-03(c)(1) but are currently accounting for their investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Audits of Investment Companies*, until the date that the investment company initially adopts AICPA Statement of Position XX-XX, Clarification of the Scope of the Audit and Accounting Guide, Investment Companies, and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. An enterprise that is required to discontinue application of the specialized accounting in the Guide as a result of adoption of SOP XX-XX is subject to the provisions of this Interpretation at that time. Paragraph 4(e) of this Interpretation states that “an enterprise subject to SEC Regulation S-X, Rule 6-03(c)(1) shall not consolidate any entity that is not also subject to that same rule” “investments accounted for at fair value in accordance with the specialized guidance in the AICPA Audit and Accounting Guide, *Investment Companies*, are not subject to consolidation according to the requirements of this interpretation” (footnote reference omitted). Accordingly, an entity that meets the definition of an investment company after adoption of SOP XX-XX shall continue to apply the specialized accounting in the Guide to its investments. ~~Other investment companies that are currently accounting for their investments in accordance with the specialized accounting guidance in the Audit Guide should not apply the provisions of Interpretation 46 to such investments until the Board has completed its consideration of whether to modify paragraph 4(e). The effective date of this Interpretation or Interpretation 46 for those investments is delayed while the AICPA finalizes its proposed Statement of Position (SOP) on the clarification of the scope of the Audit Guide and accounting by the parent companies and equity method investors for investments in investment companies. Following AICPA issuance of the final SOP, the Board will consider modifying paragraph 4(e) to provide an exception for companies that apply the Audit Guide as revised by the SOP. This effective date deferral does not extend to investments made after March 27, 2002, that are held by an investment company that is not a separate legal entity, unless those investments were acquired pursuant to an irrevocable binding commitment that existed prior to March 28, 2002. (Refer to *EITF Abstracts*, Topic No. D-74, "Issues Concerning the Scope of the AICPA Guide on Investment Companies," for additional information on the applicability of the Audit Guide to nonregistered investment companies.) The transitional disclosures in paragraph 27 of this Interpretation are not required for investments of nonregistered investment companies that are covered by this deferral provision.~~

Transition

9. If initial application of this FSP and SOP XX-XX requires consolidation of an entity that was not previously consolidated, the enterprise shall follow the transition provision applicable to that circumstance in paragraph 57 of SOP XX-XX. If initial application of SOP XX-XX requires an enterprise that had previously been consolidating an investment under Interpretation 46(R) to apply the specialized accounting in the Guide, the enterprise shall follow the transition guidance applicable to that circumstance in paragraph 57 of SOP XX-XX.