

Ernst & Young's On-Call Advisory Alert

December 6, 2007

Accounting Alert

FASB Discusses Potential Approaches for Proceeding with FAS 140 Transfers Amendment Project

At an Education Session held on December 5, 2007, the FASB continued its discussion of the proposed SFAS 140 Amendment Project. The Board discussed various approaches for proceeding with the project.

Background

At the May 30, 2007 FASB meeting, the Board directed the FASB staff to further evaluate whether the concept of a qualifying special-purpose entity (QSPE) should be eliminated from SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). The project is focused on addressing practice issues related to transfers of financial assets and simplifying the accounting model under which such transfers must be evaluated, including working toward the development of a new derecognition model. As part of its short-term project to amend SFAS 140, the Board instructed the FASB staff to further develop a linked presentation model as an interim solution to a number of the practice issues. This short-term project may result in the elimination of the concept of a QSPE¹.

¹ Should the FASB eliminate the concept of a QSPE and, absent a whole-sale amendment to the sale criteria of paragraph 9 of SFAS 140, specifically the criterion that a transferee must be able to pledge or exchange the transferred assets, many transfers currently accounted for as sales under U.S. GAAP would fail to meet the conditions for sale accounting because structures involving a trust or similar fiduciary entities are generally not permitted to pledge or sell their assets.

At the September 19, 2007 Education Session, the Board discussed the linked presentation model, including alternative linked presentation principles that would determine which transfers of financial assets may be eligible for linked presentation.

Summary of December 5, 2007 Discussion

Given its earlier decision to focus research on elimination of the QSPE concept and potential adoption of a linked presentation model, the Board discussed the following approaches to proceeding with the proposed FAS 140 Amendment Project:

- Continue research on elimination of the QSPE

Select On-Call Advisory Services Group Members:

Lisa D. Filomia-Aktas (212) 773-2833

Hee Lee (212) 773-8605

Timothy Kane (212) 773-3648

Peter Hornecker (212) 773-0227

Kenneth Wilchfort (212) 773-3414

David Thrope (212) 773-0930

Jim Medeiros (212) 773-1884

Mandy Sagar (703) 747-0660

Betty Davis (202) 327-5631

On-Call Advisory Services:

Ernst & Young's On-Call Advisory Services Group assists clients with accounting, tax and regulatory aspects of business combinations/divestitures, securitization, derivative/financial instrument, compensation, leasing, and structured transactions. This experienced group is available 24/7 via phone, fax, e-mail, or in person. In addition, we provide other advisory services, such as implementation of new standards, GAAP conversions, operational reviews, and training sessions.

concept and adoption of the linked presentation model but also reconsider the derecognition threshold. This reconsideration may:

- (a) consider a threshold based on continuing involvement, or
 - (b) leverage the IASB research report on derecognition to establish a new threshold when the rights to cash flows in the contract cease to exist.
- Research adoption of the derecognition principles in International Accounting Standard No. 39, *Financial Instruments: Recognition and Measurement* ("IAS 39").

The above approaches to amending SFAS 140 are not intended to eliminate the need for a converged standard with the IASB, which is the subject of a separate convergence project. However, the expected timeframe for such a project would not address current practice issues in a timely manner. One Board Member acknowledged the fundamental issue of whether the Board should continue to work on projects that are not convergent with IFRS.

The staff indicated that an amendment that would eliminate the QSPE exception and adopt a linked presentation model (whether changing the derecognition threshold or not) could become effective at most within two to three years while a standard converged with the IASB could take six years or more to complete.

Some Board Members suggested support for the adoption of IAS 39 principles on derecognition as this would address their concerns that the elimination of the SEC reconciliation requirements for Foreign Private Issuers will reduce the comparability of financial statements given the magnitude of financial asset transfers for some U.S. registrants. While the adoption of IAS 39 derecognition principles would represent a significant change, these Board Members suggested that the elimination of the QSPE concept and adoption of linked presentation also would represent a fundamental change to SFAS 140. Other Board Members expressed concerns that there are practice issues related to the derecognition principles in IAS 39. In addition, concerns were expressed as to

how the consolidation principles under U.S. GAAP would interplay with the principles in IAS 39.

Next Steps

The staff is expected to present further details on these approaches for proceeding with the proposed SFAS 140 amendment at a future Board meeting.

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting or tax advice or opinion provided by Ernst & Young LLP to the reader. The reader also is cautioned that this material may not be applicable to, or suitable for, the reader's specific circumstances or needs, and may require consideration of other factors if any action is to be contemplated. The reader should contact his or her Ernst & Young LLP or other professional prior to taking any action based upon this information. Ernst & Young LLP assumes no obligation to inform the reader of any changes in laws or other factors that could affect the information contained herein.

Copyright 2007 Ernst & Young LLP. All rights reserved. No part of this document may be reproduced, retransmitted or otherwise redistributed in any form or by any means, electronic or mechanical, including by photocopying, facsimile transmission, recording, rekeying, or using any information storage and retrieval system, without written permission from Ernst & Young LLP.