

**Notice for Recipients
of This Proposed FASB Staff Position**

The purpose of this proposed FASB Staff Position (FSP) is to require improved disclosures by public entities (enterprises) until the pending amendments to 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*, are effective. This proposed FSP would amend Statement 140 and Interpretation 46(R) to require enhanced disclosures by public entities (enterprises) about transfers of financial assets and interests in variable interest entities. Additionally, this proposed FSP would require certain disclosures by a public enterprise that is (a) a sponsor that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest) and (b) an enterprise that holds a significant variable interest in a qualifying SPE but was not the transferor (nontransferor enterprise) of financial assets to the qualifying SPE. The disclosures required by this proposed FSP are intended to provide users of the financial statements with greater transparency about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities.

Effective Date

The Board concluded that the effective date for the proposed disclosures should be as soon as practicable because, given the current market environment, there is an urgent need to improve the transparency of entities that transfer financial assets and enterprises that have interests in variable interest entities. The Board concluded that an early effective date may be practicable for many entities (enterprises) because many of the proposed disclosures required by this FSP are similar to those the SEC's Division of Corporation Finance suggested public entities (enterprises) consider in its December 2007 *Sample Letter Sent to Public Companies That Have Identified Investments in Structured Investment Vehicles, Conduits or Collateralized Debt Obligations (Off-balance Sheet Entities)*. However, this proposed FSP would require certain of those

disclosures to be applied more broadly to public entities (enterprises) not subject to the SEC letter. It also would require additional disclosures not included in that letter.

The Board expects to issue a final FSP in the fourth quarter of 2008. In accordance with the urgent need to improve transparency, the Board is proposing that this FSP be effective at the end of the reporting period in which the FSP is issued. For example, if this FSP is issued during December 2008, a public entity (enterprise) with a calendar year-end would be required to provide the disclosures included in this FSP beginning with its December 31, 2008, financial statements.

The Board believes, however, that this FSP should be effective no later than the first interim reporting period in fiscal years beginning after November 15, 2008. For example, a public entity (enterprise) with a fiscal year-end of November 30, 2008, would be required to provide the disclosures included in this FSP no later than its first interim financial statements issued for the reporting period beginning December 1, 2008 (and each interim period thereafter).

The Board is interested in receiving input from financial statement users about whether the disclosures required by this FSP will improve transparency and how specific disclosures will provide needed financial information. The Board is interested in receiving input from preparers, auditors, and regulators on whether the proposed disclosures are operational and whether an effective date at the end of the quarter in which the standard is issued will provide adequate time to implement the final FSP. Additionally, the Board requests input from financial statement preparers that will help the Board understand the nature and extent of the effort and time needed to compile the information required.

Request for Comment

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Respondents need not comment on all of the issues presented and are encouraged to comment on additional issues as well. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments should identify the issues to which they relate and clearly explain the reasons for the positions taken. Those who disagree with provisions of this

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proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

Responses must be received in writing by October 15, 2008. Interested parties should submit their comments by email to director@fasb.org, File Reference: Proposed FSP FAS 140-e and FIN 46(R)-e. Those without email may mail their comments to “Technical Director, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 140-e and FIN 46(R)-e.” Responses should not be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB website and included with other project materials as part of the project record.

PROPOSED FASB STAFF POSITION

No. FAS 140-e and FIN 46(R)-e

Title: Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities

Comment Deadline: October 15, 2008

Objective

1. This FASB Staff Position (FSP) amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require public entities¹ to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to require public enterprises² to provide additional disclosures about their involvement with variable interest entities. Additionally, this proposed FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest) and (b) an enterprise that holds a significant variable interest in a qualifying special-purpose entity (SPE)³ but was not the transferor (nontransferor enterprise) of financial assets to the qualifying SPE. The disclosures required by this proposed FSP are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities.

¹For purposes of this FSP, the following definitions of public and nonpublic from paragraph E1 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, shall be applied in assessing whether an entity (enterprise) is within the scope of this FSP.

Nonpublic entity (enterprise)—Any entity (enterprise) other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (c) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (d) that is controlled by an entity (enterprise) covered by (a), (b), or (c).

Public entity (enterprise)—Any entity (enterprise) that does not meet the definition of a *nonpublic entity* (enterprise).

²See footnote 1.

³Paragraph 35 of Statement 140 describes a qualifying special-purpose entity.

Background

2. The Board agreed to require enhanced disclosures as part of its projects to amend Statement 140 and Interpretation 46(R). The Board decided this because financial statement users indicated that greater transparency is needed to understand the extent of continuing involvement a transferor has with transferred financial assets and the involvement an enterprise has with a variable interest entity.

3. As a result of its decisions related to the effective date for its projects to amend Statement 140 and Interpretation 46(R), the Board decided to issue an FSP that would require disclosures in the interim to expeditiously meet financial statement users' needs for more transparent information. The disclosures in this FSP are similar to those in the pending Exposure Drafts to amend Statement 140 and Interpretation 46(R), but would be effective sooner.

<p>This FSP is set out in paragraphs 1–13 and Appendixes A–D. All paragraphs have equal authority. Paragraphs in bold set out the main principles.</p>

FASB Staff Position

Scope

4. **This FSP applies to public entities that are subject to the disclosure requirements of Statement 140 and public enterprises that are subject to the disclosure requirements of Interpretation 46(R). This FSP also applies to a public enterprise that is (a) a sponsor that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest) and (b) a nontransferor enterprise that holds a significant variable interest in a qualifying SPE.**

5. A public entity subject to the disclosure requirements of Statement 140 shall provide the disclosures required in Appendix B of this FSP. A public enterprise that (a) is the primary beneficiary of a variable interest entity, (b) holds a significant variable interest in a variable interest entity but is not the primary beneficiary, or (c) is a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest) shall provide the disclosures required in Appendix C of this FSP. A

public enterprise that is a nontransferor enterprise that holds a significant variable interest in a qualifying SPE shall provide the disclosures required in Appendix D of this FSP.

Disclosure Requirements of Statement 140 for Public Entities

6. The principal objectives of the disclosures required by this FSP for public entities subject to the disclosure requirements of Statement 140 are to provide users of the financial statements with an understanding of:

- a. A transferor's continuing involvement in financial assets that it has transferred to an SPE⁴**
- b. The nature of any restrictions on assets reported by an entity in its statement of financial position, including the carrying amounts of such assets**
- c. How servicing assets and servicing liabilities are reported under Statement 140**
- d. How a transfer of financial assets to an SPE affects an entity's financial position, financial performance, and cash flows.**

7. Appendix A provides amendments to the disclosure requirements for public entities subject to the disclosure requirements of Statement 140 and requires a public entity to provide the disclosures included in Appendix B of this FSP. The disclosures in Appendix B:

- a. Provide an overall objective for the disclosure requirements
- b. Provide guidance on aggregating disclosures for similar transfers of financial assets
- c. Require additional information about:
 - (1) The nature, purpose, size, and activities of an SPE utilized in a transfer of financial assets, including how the entity is financed
 - (2) The calculation of the initial gain or loss recognized as a result of a transfer of financial assets to an SPE that has been accounted for as a sale
 - (3) The transferor's continuing involvement with financial assets transferred to an SPE, including transfers that are accounted for as sales and transfers that are accounted for as secured borrowings.

Disclosure Requirements of Interpretation 46(R) for Public Enterprises

8. The principal objectives of the disclosures required by this FSP for public enterprises subject to the disclosure requirements of Interpretation 46(R), as

⁴For purposes of this FSP as it relates to Statement 140, the term *SPE* includes, but is not limited to, any entity whose activities are primarily related to securitization or other forms of asset-backed financings.

amended by this FSP, are to provide users of the financial statements with an understanding of:

- a. **The judgments and assumptions made by the enterprise in determining whether the enterprise must consolidate a variable interest entity and/or disclose information about its involvement with a variable interest entity**
 - b. **The nature of restrictions on a consolidated variable interest entity's assets reported by the enterprise in its statement of financial position, including the carrying amounts of such assets**
 - c. **The nature of, and changes in, the risks associated with the enterprise's involvement with a variable interest entity**
 - d. **The current potential financial effects from an enterprise's involvement with a variable interest entity on the enterprise's financial position, financial performance, and cash flows.**
9. Appendix A provides amendments to disclosure requirements for public enterprises subject to the disclosure requirements of Interpretation 46(R), as amended by this FSP, and requires a public enterprise to provide the disclosures included in Appendix C of this FSP. In addition, Appendix A amends the scope of the disclosure requirements of Interpretation 46(R) to require a sponsor that has a variable interest in a variable interest entity (irrespective of the significance of the variable interest) to provide certain disclosures. The disclosures in Appendix C:
- a. Include an overall objective for the disclosure requirements
 - b. Enhance the guidance on aggregating disclosures for similar variable interest entities
 - c. Require disclosure about:
 - (1) The nature, purpose, size, and activities of the variable interest entity
 - (2) The enterprise's methodology for applying the Interpretation, including significant factors considered and significant assumptions and judgments made
 - (3) Whether the enterprise has provided financial or other support to a variable interest entity that it was not previously contractually required to provide
 - (4) The terms of arrangements that could require the enterprise to provide financial support to a variable interest entity, including events or circumstances that could expose the enterprise to a loss
 - (5) The carrying amount and classification of the assets and liabilities related to the variable interests recognized in the statement of financial position, including the nature of any restrictions on the ability of the enterprise to use assets it has recognized
 - (6) The fair value of a consolidated variable interest entity's financial assets and liabilities that are recognized by the enterprise

- (7) How the enterprise's maximum exposure to loss as a result of its involvement with a variable interest entity is determined, and if the maximum exposure is not representative of its exposure to loss, how the estimated exposure to loss is determined.

Disclosure Requirements for a Nontransferor Enterprise That Holds a Significant Variable Interest in a Qualifying SPE

10. A nontransferor enterprise that holds a significant variable interest in a qualifying SPE, regardless of the exemption in paragraph 4(d) of Interpretation 46(R), shall disclose information that provides users of the financial statements with an understanding of its involvement with the qualifying SPE.

11. Appendix A provides amendments to the disclosure requirements of Interpretation 46(R) and requires a public enterprise that is a nontransferor enterprise that holds a significant variable interest in a qualifying SPE to provide the disclosures included in Appendix D of this FSP. The disclosures in Appendix D:

- a. Provide an overall objective for the disclosure requirements.
- b. Provide guidance on aggregating disclosures for similar variable interest entities.
- c. Require disclosure about:
 - (1) The nature, purpose, size, and activities of the qualifying SPE, including how the entity is financed.
 - (2) The carrying amount and classification of the enterprise's variable interest in the statement of financial position related to the enterprise's involvement with the qualifying SPE.
 - (3) Terms of arrangements that could require the enterprise to provide financial support (for example, liquidity commitments and obligations to purchase assets) to the qualifying SPE, including events or circumstances that could expose the enterprise to loss. Consideration should be given to both implicit and explicit arrangements.
 - (4) Whether the enterprise has provided financial or other support to the qualifying SPE that it was not previously contractually required to provide during the periods presented.

Effective Date and Transition

12. This FSP shall be effective for reporting periods (interim and annual) beginning with the first reporting period that ends after the FSP is issued.

13. An entity (enterprise) is encouraged, but not required, to disclose comparative information in periods earlier than the effective date for disclosures that were not

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previously required for public entities (enterprises) by Statement 140 and Interpretation 46(R). In periods after initial adoption, comparative disclosures for those disclosures that were not previously required for public entities (enterprises) by Statement 140 and Interpretation 46(R) are required only for periods subsequent to the effective date.

The provisions of this FSP need not be applied to immaterial items.

Appendix A

AMENDMENTS TO STATEMENT 140 AND INTERPRETATION 46(R)

Amendment to Statement 140

A1. Statement 140 is amended as follows: [Added text is underlined and deleted text is ~~struck out.~~]

- a. Paragraph 16A and the headings preceding and following it are added under the heading “Disclosures” as follows:

Disclosures for Public Entities

16A. A public entity^{5a} shall provide disclosures as required in Appendix B of FASB Staff Position FAS 140-X and FIN 46(R)-X, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities.

Disclosures for Nonpublic Entities

^{5a}The following definitions of public and nonpublic shall be applied in assessing whether an entity is public or nonpublic:

Nonpublic entity—Any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (c) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (d) that is controlled by an entity covered by (a), (b), or (c).

Public entity—Any entity that does not meet the definition of a nonpublic entity.

Amendment to Interpretation 46(R)

A2. Interpretation 46(R) is amended as follows:

- a. Paragraphs 22A and 22B and the headings preceding and following them are added under the heading “Disclosure” as follows:

Disclosures for Public Enterprises

22A. A public enterprise^{16a} (including a public enterprise that is a sponsor that has a variable interest in a variable interest entity) shall provide disclosures as required in Appendix C of FASB Staff Position FAS 140-X and FIN 46(R)-X, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities.

22B. A public enterprise^{16b} that is an enterprise that holds a significant variable interest in a qualifying special-purpose entity (SPE), but was not the transferor of assets to the qualifying SPE, shall provide disclosures as required in Appendix D of FSP FAS 140-X and FIN 46(R)-X.

Disclosures for Nonpublic Enterprises

^{16a}The following definitions of public and nonpublic shall be applied in assessing whether an enterprise is public or nonpublic:

Nonpublic enterprise—Any enterprise other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (c) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (d) that is controlled by an enterprise covered by (a), (b), or (c).

Public enterprise—Any enterprise that does not meet the definition of a nonpublic enterprise.

^{16b}See footnote 16a.

Appendix B

DISCLOSURE REQUIREMENTS OF STATEMENT 140 FOR PUBLIC ENTITIES

B1. This appendix provides the following enhanced disclosure requirements of Statement 140 for public entities as required by this FSP:

16A. The principal objectives of the disclosures required by paragraph 17 are to provide users of the financial statements with an understanding of:

- a. A transferor's continuing involvement⁵ in financial assets that it has transferred to an SPE⁶
- b. The nature of any restrictions on assets reported by an entity in its statement of financial position, including the carrying amounts of such assets
- c. How servicing assets and servicing liabilities are reported under Statement 140
- d. How a transfer of financial assets affects an entity's financial position, financial performance, and cash flows.

A reporting entity shall consider these overall objectives in providing the disclosures required by this FSP.

16B. Disclosures required by this FSP may be reported in the aggregate for similar transfers if separate reporting of each transfer would not add useful incremental information to financial statement users. However, a transferor must distinguish transfers that are accounted for as sales from transfers that are accounted for as secured borrowings and distinguish transfers to qualifying SPEs accounted for as sales from all other transfers accounted for as sales. A transferor shall disclose how similar transfers are aggregated. In determining whether to aggregate the disclosures for multiple transfers, the reporting entity

⁵For purposes of this FSP, *continuing involvement* is defined as any involvement with the transferred financial assets that permits the transferor to receive cash flows or other benefits that arise from the transferred financial assets or that obligates the transferor to provide additional cash flows or other assets to any party related to the transfer. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee arrangements, agreements to purchase or redeem transferred financial assets, derivative instruments related to the transferred financial assets, implicit commitments to provide financial support, pledges of collateral, and the transferor's beneficial interests.

⁶For purposes of this FSP, the term *SPE* includes, but is not limited to, any entity whose activities are primarily related to securitization or other forms of asset-backed financings.

shall 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 nature of the transferor's continuing involvement
- b. The types of financial assets transferred
- c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer.

16C. To apply the disclosures in paragraph 17, all involvements by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents shall be considered involvement by the transferor.

17. In addition to the disclosures required by other standards, an entity shall disclose the following:

- a. If assets are restricted solely to satisfy a specific obligation, the carrying amount of those assets and associated liabilities, including a description of the nature of restrictions placed on the assets.
- b. 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) of Statement 140, 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 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.
- c. If debt was considered to be extinguished by in-substance defeasance, a general description of the transaction and the amount of debt that is considered extinguished at the end of each period that the debt remains outstanding.
- 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 (see paragraph 13A of Statement 140).
 - (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, 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
 - (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, anticipated credit losses, 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, anticipated credit losses, 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 of Statement 140.
 - (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 transferred financial assets to an SPE during any period presented and accounts for that transfer as a sale:
- (1) Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, if any, including the methodology used in determining their fair value.
 - (2) The characteristics of the transfer (including a description of the transferor’s continuing involvement with the transferred financial assets, if any), and the gain or loss from sale of financial assets, including quantitative information about how the gain or loss was determined.
 - (3) The methodology, key inputs, and assumptions⁷ used in measuring the fair value of interests that continue to be held by the transferor and assets obtained and liabilities incurred in the sale at the time of transfer (including, at a minimum if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets,⁸ and anticipated credit losses).
- i. If the transferor has continuing involvement in financial assets that it has transferred to an SPE (including those transfers that are accounted for as sales and those that are accounted for as secured borrowings) at the date of the latest statement of financial position presented:
- (1) The nature, purpose, size, and activities of the SPE, including how the entity is financed.
 - (2) Qualitative and quantitative information about the transfer, giving consideration to both explicit and implicit arrangements, that provides users with sufficient information to assess risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor’s risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:
 - (a) The transferor’s continuing involvement with the transferred financial assets
 - (b) The carrying amount and classification of assets and associated liabilities recognized in the transferor’s statement of financial position at the reporting date, including qualitative information about the relationship(s) between those assets and associated liabilities

⁷If an entity has aggregated multiple transfers during a period in accordance with paragraph 16B, it may disclose the range of assumptions for each aggregated group.

⁸The 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.

- (c) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity commitments and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss
 - (d) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support:
 - (i) The type and amount of noncontractual support
 - (ii) The primary reasons for providing the noncontractual support.
 - (e) Liquidity guarantees and other commitments provided by third parties related to the transferred financial assets.
- (3) Its accounting policies for subsequently measuring assets or liabilities that relate to the continuing involvement in the transferred financial assets.
 - (4) The methodology, key inputs, and assumptions used in subsequently measuring the fair value of assets or liabilities that relate to the transferor's continuing involvement (including, at a minimum if applicable, 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 losses⁹).¹⁰
 - (5) A sensitivity analysis or stress test showing the hypothetical effect on the fair value of assets or liabilities that relate to continuing involvement of the transferor (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 (4) 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.
 - (6) Cash flows during the period between a nonconsolidated SPE and the transferor (including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets [or its underlying collateral],

⁹Expected 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 financial assets.

¹⁰The timing and amount of future cash flows for interests that continue to be held by the transferor in transferred financial assets 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 financial assets transferred, because of the implicit credit or prepayment risk enhancement arising from the subordination.

servicing fees, and cash flows received on the interests that continue to be held by the transferor).

(7) For the transferred financial assets and any other financial assets that it manages together with them:

- (a) The total principal amount outstanding, the amount that has been derecognized, and the amount that continues to be recognized in each category reported in the statement of financial position, at the end of the period
- (b) Delinquencies at the end of the period
- (c) Credit losses, net of recoveries, during the period.

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

Appendix C

DISCLOSURE REQUIREMENTS OF INTERPRETATION 46(R) FOR PUBLIC ENTERPRISES

C1. This appendix provides the following enhanced disclosure requirements of Interpretation 46(R) for public entities as required by this FSP:

22A. The principal objectives of the disclosures required by paragraphs 22B–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 a variable interest entity and/or disclose information about its involvement in a variable interest entity
- b. The nature of restrictions on a consolidated variable interest entity’s assets reported by the enterprise in its statement of financial position, including the carrying amounts of such assets
- c. The nature of, and changes in, the risks associated with the enterprise’s involvement with the variable interest entity
- d. The current potential financial effects from an enterprise’s involvement with the variable interest entity on the enterprise’s financial position, financial performance, and cash flows.

An enterprise shall consider these overall objectives in providing the disclosures required by this FSP. To achieve these objectives, an enterprise may need to supplement the disclosures required by paragraphs 22B–26, depending on the facts and circumstances surrounding the variable interest entity and the enterprise’s interest in that entity. Accordingly, if the enterprise’s economic relationship with the variable interest entity or exposure to risk is not addressed by any of the disclosures provided in paragraphs 22B–26, 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 useful incremental information to financial statement users. An enterprise shall disclose how similar entities are aggregated and shall distinguish between:

- a. Variable interest entities that are not consolidated because the enterprise is not the primary beneficiary but is either the sponsor or has a significant variable interest
- b. Variable interest entities that are consolidated.

In determining whether to aggregate variable interest entities, the reporting enterprise should consider quantitative and qualitative information about the different risk and reward characteristics of each variable interest entity and the significance of each variable interest entity to the enterprise.

22C. An enterprise that (a) is a primary beneficiary in a variable interest entity, (b) holds a significant variable interest in a variable interest entity but is not the primary beneficiary, or (c) is a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest) shall disclose:

- a. Its methodology for determining whether the enterprise is (or is not) the primary beneficiary of a variable interest entity, including, but not limited to:
 - (1) Significant factors considered
 - (2) Significant assumptions and judgments made and whether a different assumption or judgment could have reasonably been made that would result in a different conclusion.
- b. If a variable interest entity has been reported differently in the current financial statements (including the notes to the financial statements) than in the most recent financial statements (for example, the variable interest entity was previously consolidated and is not currently consolidated), an enterprise shall disclose the primary factors that caused the change and the effect on the enterprise's financial statements.
- c. Whether the enterprise has provided financial or other support during the periods presented to the variable interest entity that it was not previously contractually required to provide, including:
 - (1) The type and amount of support, including situations where the enterprise assisted the variable interest entity in obtaining another type of support
 - (2) The primary reasons for providing the noncontractual support.
- d. Qualitative and quantitative information about the enterprise's involvement (giving consideration to both explicit and implicit arrangements) with the variable interest entity, including:
 - (1) The nature, purpose, size, and activities of the variable interest entity, including how the entity is financed
 - (2) Terms of arrangements that could require the enterprise to provide financial support (for example, liquidity commitments and

obligations to purchase assets) to the variable interest entity, including events or circumstances that could expose the enterprise to a loss.

23. In addition to disclosures required by other standards, the primary beneficiary of a variable interest entity shall disclose the following:¹¹

- a. The carrying amount and classification of the consolidated variable interest entity's assets and liabilities in the statement of financial position that are consolidated pursuant to Interpretation 46(R)
- 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 consolidated variable interest entity's assets and associated liabilities
 - (2) Qualitative information about the nature of the 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. The fair value of the consolidated variable interest entity's financial assets and financial liabilities that are consolidated pursuant to Interpretation 46(R) (separately from those disclosed pursuant to FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*).

24. In addition to disclosures required by other standards, an enterprise that holds a significant variable interest or is a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest), but is not the variable interest entity's primary beneficiary shall disclose:

- a. 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 the enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity cannot be quantified, 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 its estimated exposure to loss. If such disclosure is made, the enterprise shall disclose the methodology used to determine the

¹¹A 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 and if the entity meets the definition of a business in FASB Statement No. 141 (revised 2007), *Business Combinations*, and the entity's assets can be used for purposes other than the settlement of the entity's obligations, the disclosures in paragraphs 22C and 23 of this FSP and paragraph 27 of Interpretation 46(R) are not required.

estimated loss exposure. Such a description shall include qualitative and quantitative information, such as:

- (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 in the enterprise's statement of financial position of the enterprise's variable interest in the variable interest entity.

[Paragraph 25 has been omitted.]

25A. The disclosures required by this FSP may be provided in more than one note to the financial statements, 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 Interpretation 46(R) for similar entities.

26. An enterprise that does not apply Interpretation 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of Interpretation 46(R) shall disclose the following information:

- a. The number of entities to which Interpretation 46(R) is not being applied and the reason why the information required to apply Interpretation 46(R) 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.

Appendix D

DISCLOSURES FOR A PUBLIC ENTERPRISE THAT IS A NONTRANSFEROR ENTERPRISE THAT HOLDS A SIGNIFICANT VARIABLE INTEREST IN A QUALIFYING SPE

D1. A public enterprise that is an enterprise that holds a significant variable interest (variable interest as defined in Interpretation 46(R)) in a qualifying SPE but was not the transferor (nontransferor enterprise) of financial assets to the qualifying SPE shall disclose information that provides users of the financial statements with an understanding of its involvement with the qualifying SPE, regardless of the exemption in paragraph 4(d) of Interpretation 46(R) for qualifying SPEs.

D2. Disclosures required for a public enterprise that is a nontransferor enterprise that holds a significant variable interest may be reported in the aggregate for similar entities if separate reporting would not provide useful incremental information to financial statement users. An enterprise shall disclose how similar entities are aggregated. In determining whether to aggregate qualifying SPE, the enterprise should consider quantitative and qualitative information about the different risk and reward characteristics of each qualifying SPE and the importance of each qualifying SPE to the enterprise.

D3. In addition to the disclosures required by other standards, a public enterprise that is a nontransferor enterprise that holds a significant variable interest in a qualifying SPE shall disclose the following:

- a. The nature, purpose, size, and activities of the qualifying SPE, including how the entity is financed.
- b. The carrying amount and classification of the enterprise's variable interest in the statement of financial position related to the enterprise's involvement with the qualifying SPE.
- c. Terms of arrangements that could require the enterprise to provide financial support (for example, liquidity commitments and obligations to purchase assets) to the qualifying SPE, including events or circumstances that could expose the enterprise to loss. Consideration should be given to both implicit and explicit arrangements.

- d. Whether the enterprise has provided financial or other support during the periods presented to the qualifying SPE that it was not previously contractually required to provide, including:
 - (1) The type and amount of support, including situations where the enterprise assisted the qualifying SPE in obtaining another type of support
 - (2) The primary reasons for providing the noncontractual support.

Appendix E

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

E1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this proposed FSP. It includes reasons for accepting certain views and rejecting others.

Background

E2. At its July 2008 Board meeting, the Board decided that disclosures similar to those being proposed in the pending amendments for Statement 140 and Interpretation 46(R) should also be exposed in an FASB Staff Position (FSP). The Board learned that users of financial statements need enhanced information about transferred financial assets and about an enterprise's involvement with variable interest entities as soon as possible. The Board concluded that a disclosure-only FSP would (a) expeditiously meet the needs of financial statement users for greater transparency about transfers of financial assets and an enterprise's involvement with a variable interest entity, including a qualifying SPE, and (b) provide preparers, regulators, auditors, and financial statement users with adequate time to consider and implement the pending Exposure Drafts to amend the accounting requirements of Statement 140 and Interpretation 46(R). In addition, the Board decided that the FSP would establish new disclosures for a nontransferor enterprise that holds a significant variable interest in a qualifying SPE. Because the FSP is an interim measure, the Board discussed that this FSP would be superseded when the proposed amendments to Statement 140 and Interpretation 46(R) are effective—those proposed Statements have effective dates as of the beginning of each reporting entity's (enterprise's) first fiscal year that begins after November 15, 2009.

E3. In developing the incremental disclosures included in this proposed FSP, the Board noted that existing U.S. generally accepted accounting principles (GAAP) already require numerous disclosures related to transfers of financial assets, variable interest entities, guarantees, risks and uncertainties, credit concentrations, derivatives, and assets measured at fair value. However, the Board concluded that some of these disclosures

could be enhanced and incorporated directly into Statement 140 and Interpretation 46(R) to improve compliance, transparency, and enforcement. The Board considered input from various constituent groups but primarily considered the recommendations made by financial statement users to develop the proposed enhancements to the disclosures. Additionally, the Board considered existing SEC disclosure requirements and the SEC's Division of Corporation Finance December 2007 *Sample Letter Sent to Public Companies That Have Identified Investments in Structured Investment Vehicles, Conduits or Collateralized Debt Obligations (Off-balance Sheet Entities)*, existing or contemplated disclosure requirements of other standard setters (including the IASB), and various other studies and articles on the topic of perceived gaps in the disclosure requirements for transferred financial assets in general. For example, the Board considered certain disclosures included in the April 2008 Senior Supervisors Group Report, *Leading-Practice Disclosures for Selected Exposures*, which was issued by banking commissions and regulators from five countries.

E4. Financial statement users told the Board that they need additional information about transferred financial assets when the transferor has continuing involvement in the transferred financial assets, regardless of whether the transferor accounts for the transfer of financial assets as a sale or a secured borrowing. Additionally, financial statement users told the Board that the information that is currently disclosed about an enterprise's involvement(s) with a variable interest entity and the associated risks often is insufficient and not timely, regardless of whether the variable interest entity is consolidated by the enterprise. Financial statement users also told the Board that enhanced disclosures are urgently needed to improve transparency in financial reporting, and they suggested many of the incremental disclosures in this proposed FSP.

E5. The Board agreed with those views and expects that the incremental disclosures will provide increased transparency about (a) transferred financial assets, in particular, those that involve SPEs, and (b) an enterprise's involvement(s) with a variable interest entity. The Board decided to first develop overall objectives for the disclosures and to then enhance the existing required disclosures because it is not possible to develop specific disclosures that would anticipate all existing and future transactions. The Board also decided that the disclosure objectives should encompass existing disclosures, such as

the servicing disclosures that were recently enhanced by FASB Statement No. 156, *Accounting for Servicing of Financial Assets*.

Scope

E6. The Board decided that this proposed FSP should apply only to public entities (enterprises) because of the different environments in which public and nonpublic entities (enterprises) operate. As a result, the Board concluded that a nonpublic entity (enterprise) should only be required to apply the incremental disclosures required by the pending Exposure Drafts to amend Statement 140 and Interpretation 46(R) when they are effective and not at the effective date of this interim FSP.

Statement 140 Related Disclosures

E7. The Board concluded that the four objectives of the disclosures related to Statement 140, as required by this proposed FSP, would provide preparers with guidance necessary to provide financial statement users with an understanding of the following:

- a. A transferor's continuing involvement in financial assets that it has transferred to an SPE
- b. The nature of any restriction on assets reported by an entity in its statement of financial position, including the carrying amounts of such assets
- c. How servicing assets and servicing liabilities are reported under Statement 140
- d. How a transfer of financial assets to an SPE affects an entity's financial position, financial performance, and cash flows.

E8. Footnote 10 to paragraph 17(i)(4) of Statement 140 provides an exception from the disclosures required by that paragraph if a transferor's only continuing involvement is servicing the transferred financial assets. Based on constituent feedback about the difficulty of providing a definition of servicing that would be consistently applied, the Board concluded that the disclosure exemption in footnote 10 to paragraph 17(i)(4) should be removed for this proposed FSP.

E9. Paragraph 17(h)(2) of Statement 140 requires a description of the transferor's continuing involvement and provides examples of continuing involvement. It is only applicable to securitizations completed in the periods presented. As a result of the Board's decision to require a similar disclosure that includes a transferor's continuing involvement in transferred financial assets regardless of when the transfer originally

occurred, the Board concluded that the term *continuing involvement* should be explicitly defined in this FSP. The Board developed the definition of continuing involvement based on examples of what constitutes continuing involvement that were already provided in Statement 140 and the FASB Special Report, *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

E10. The Board decided to include an aggregation principle for the disclosure requirements of this proposed FSP. The Board concluded that the current aggregation guidance (by major asset type) was not adequate because of the different risk characteristics within a major asset type that vary by entity. For example, the Board decided that FSP SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*, which was issued after Statement 140, should be considered in providing the disclosures required by this proposed FSP.

Interpretation 46(R) Disclosures

E11. The Board believes that the four objectives of the disclosures related to Interpretation 46(R), as required by this proposed FSP, would 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 a variable interest entity and/or disclose information about its involvement with a variable interest entity
- b. The nature of restrictions on a consolidated variable interest entity's assets reported by the enterprise in its statement of financial position, including the carrying amounts of such assets
- c. The nature of, and changes in, the risks associated with the enterprise's involvement in a variable interest entity
- d. The current potential financial effects from an enterprise's involvement with a variable interest entity on the enterprise's financial position, financial performance, and cash flows.

E12. The Board decided to enhance the aggregation principle for the Interpretation 46(R) related disclosure requirements of this proposed FSP based on feedback from financial statement users who indicated that in some cases the application of the aggregation principle in Interpretation 46(R) did not result in meaningful information. Further, the

Board concluded that disclosures should be reported separately for variable interest entities that are not consolidated and those that are consolidated.

E13. The Board also decided to require a sponsor that holds a variable interest (irrespective of the significance of the variable interest) to disclose the same information that is required for an enterprise that holds a significant variable interest in a variable interest entity but that is not the primary beneficiary. The Board decided to include this requirement based on observed situations in which sponsors (a) have provided financial support to variable interest entities that they did not previously consolidate, (b) did not provide adequate disclosures to allow financial statement users to understand their involvement with those variable interest entities, or (c) both. In addition, the Board concluded that certain disclosures should be required for all enterprises that have a significant variable interest in a variable interest entity primarily to provide financial statement users with information about the methodology, judgments, and assumptions for determining whether the enterprise is, or is not, the primary beneficiary of a variable interest entity.

E14. The Board did not believe it was necessary to provide an accounting definition of the term *sponsor* because the term is used elsewhere in the accounting literature related to Interpretation 46(R) without definition. For example, EITF Issue No. 96-21, “Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities,” uses the term *sponsor*. In addition, the Board reasoned that determining whether an enterprise is a sponsor requires professional judgment and a consideration of qualitative and quantitative factors that depend on specific facts and circumstances.

Effective Date and Transition

E15. Given the current economic environment, the Board believes that there is an urgent need to improve transparency related to transfers of financial assets and variable interest entities. Accordingly, the Board decided that the effective date for the proposed FSP should be as soon practicable, but no later than the first interim reporting period in fiscal years beginning after November 15, 2008.

Benefits and Costs

E16. The mission of the FASB is to establish and improve standards of financial accounting and reporting to provide information that is useful to users of financial statements (present and potential investors, creditors, and other capital market participants) in making rational investment, credit, and similar resource allocation decisions. In fulfilling that mission, the Board endeavors to determine that a standard will fill a significant need and that the costs imposed to apply that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. Although the costs to implement a new standard may not be borne evenly, users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

E17. The Board recognizes that some entities may incur significant costs to provide the disclosures required by this proposed FSP. However, many investors and users of financial statements have told the Board that enhancements to the disclosure requirements of Statement 140 and Interpretation 46(R) are urgently needed. The Board believes that the proposed amendments to Statement 140 and Interpretation 46(R) are necessary to provide relevant, understandable, and transparent financial information to the capital markets.

Appendix F

COMPARISON OF THE DISCLOSURE REQUIREMENTS OF STATEMENT 140 TO THE DISCLOSURE REQUIREMENTS IN THIS FSP FOR PUBLIC ENTITIES

F1. Changes to disclosure requirements for public entities subject to the Statement 140 disclosure requirements are shown as follows: [Added text is underlined and deleted text is ~~struck-out~~.]

a. Paragraphs 16A–16C are added as follows:

16A. The principal objectives of the disclosures required by paragraph 17 are to provide users of the financial statements with an understanding of:

- a. A transferor's continuing involvement^{5a} in financial assets that it has transferred to an SPE^{5b}
- b. The nature of any restrictions on assets reported by an entity in its statement of financial position, including the carrying amount of such assets
- c. How servicing assets and servicing liabilities are reported under Statement 140
- d. How a transfer of financial assets affects an entity's financial position, financial performance, and cash flows.

A reporting entity shall consider these overall objectives in providing the disclosures required by this FSP.

16B. Disclosures required by this FSP may be reported in the aggregate for similar transfers if separate reporting of each transfer would not add useful incremental information to financial statement users. However, a transferor must distinguish transfers that are accounted for as sales from transfers that are accounted for as secured borrowings and distinguish transfers to qualifying SPEs accounted for as sales from all other transfers accounted for as sales. A transferor shall disclose how similar transfers are aggregated. In determining whether to aggregate the disclosures for multiple transfers, the reporting entity shall 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 nature of the transferor's continuing involvement
- b. The types of financial assets transferred

- c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer.

16C. To apply the disclosures in paragraph 17, all involvements by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents shall be considered involvement by the transferor.

^{5a}For purposes of this FSP, *continuing involvement* is defined as any involvement with the transferred financial assets that permits the transferor to receive cash flows or other benefits that arise from the transferred financial assets or that obligates the transferor to provide additional cash flows or other assets to any party related to the transfer. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee arrangements, agreements to purchase or redeem transferred financial assets, derivative instruments related to the transferred financial assets, implicit commitments to provide financial support, pledges of collateral, and the transferor's beneficial interests.

^{5b}For purposes of this FSP, the term *SPE* includes, but is not limited to any entity whose activities are primarily related to securitization or other forms of asset-backed financings.

- b. Changes to paragraph 17 and its related footnotes are shown as follows:

In addition to the disclosures required by other standards, an ~~An~~ entity shall disclose the following:

- a. If assets are restricted solely to satisfy a specific obligation, the carrying amount of those assets and associated liabilities, including a description of the nature of restrictions placed on the assets.

~~a~~b. 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) of Statement 140, 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 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,~~⁶ a general description of the transaction and the amount of debt that is

- considered extinguished at the end of ~~the~~each period so long as that the 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 (see paragraph 13A of Statement 140).
 - (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
 - (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, anticipated credit losses, 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, anticipated credit losses 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 of Statement 140.
 - (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 an 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, 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.
 - (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 quantitative information about how the gain or loss was determined.
 - (3) The methodology, key inputs, and assumptions⁷ used in measuring the fair value of interests that continue to be held by the transferor and assets obtained and liabilities incurred in the sale ~~servicing assets or servicing liabilities, if any,~~ at the time of ~~transfer~~securitization (including, at a minimum if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets,⁸ 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 securitizations,~~

~~proceeds from collections reinvested in revolving period 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 continuing involvement in financial assets that it has securitized transferred to an SPE (including those transfers that are accounted for as sales and those that are accounted 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) The nature, purpose, size, and activities of the SPE, including how the entity is financed.
 - (2) Qualitative and quantitative information about the transfer, giving consideration to both explicit and implicit arrangements, that provides users with sufficient information to assess risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:
 - (a) The transferor's continuing involvement with the transferred financial assets
 - (b) The carrying amount and classification of assets and associated liabilities recognized in the transferor's statement of financial position at the reporting date, including qualitative information about the relationship(s) between those assets and associated liabilities
 - (c) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity commitments and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss
 - (d) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support:
 - (i) The type and amount of noncontractual support
 - (ii) The primary reasons for providing the noncontractual support.
 - (e) Liquidity guarantees and other commitments provided by third parties related to the transferred financial assets.

- (34) Its accounting policies for subsequently measuring ~~those interests~~assets or liabilities that relate to the continuing involvement in the transferred financial assets, 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.
- (42) The methodology, key inputs, and assumptions used in subsequently measuring the fair value of ~~those interests~~assets or liabilities that relate to the transferor's continuing involvement (including, at a minimum if applicable, 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,⁹ ~~if applicable~~).¹⁰
- (53) A sensitivity analysis or stress test showing the hypothetical effect on the fair value of ~~those interests~~assets or liabilities that relate to continuing involvement of the transferor (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 (24) 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.
- (6) Cash flows during the period between a nonconsolidated SPE and the transferor (including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets [or its underlying collateral], servicing fees, and cash flows received on the interests that continue to be held by the transferor).
- (74) For the transferred financial ~~securitized~~ assets and any other financial assets that it manages together with them:⁺⁰
- (a) The total principal amount outstanding, the amount portion that has been derecognized, and the amount portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period
 - (b) Delinquencies at the end of the period
 - (c) Credit losses, net of recoveries, during the period.

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

⁶~~Refer to footnote 11 to paragraph 19.~~

⁷If an entity has aggregated ~~made multiple securitizations transfers of the same major asset type during a period in accordance with paragraph 16B,~~ it may disclose the range of assumptions for each aggregated group.

⁸The 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.

⁹Expected 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 financial assets.

¹⁰~~The timing and amount of future cash flows for retained interests that continue to be held by the transferor in securitizations transferred financial assets~~ 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 financial assets ~~securitized transferred,~~ because of the implicit credit or prepayment risk enhancement arising from the subordination.

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

Appendix G

COMPARISON OF THE DISCLOSURE REQUIREMENTS OF INTERPRETATION 46(R) TO THE DISCLOSURE REQUIREMENTS IN THIS FSP FOR PUBLIC ENTITIES

G1. Changes to disclosure requirements for public entities subject to the Interpretation 46(R) disclosure requirements are shown as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraphs 22A–22C are added as follows:

22A. The principal objectives of the disclosures required by paragraphs 22B–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 a variable interest entity and/or disclose information about its involvement in a variable interest entity
- b. The nature of restrictions on the consolidated variable interest entity’s assets reported by the enterprise in its statement of financial position, including the carrying amounts of such assets
- c. The nature of, and changes in, the risks associated with the enterprise’s involvement with the variable interest entity
- d. The current potential financial effects from an enterprise’s involvement with a variable interest entity on the enterprise’s financial position, financial performance, and cash flows.

An enterprise shall consider these overall objectives in providing the disclosures required by this FSP. To achieve these objectives, an enterprise may need to supplement the disclosures required by paragraphs 22B–26, depending on the facts and circumstances surrounding the variable interest entity and the enterprise’s interest in that entity. Accordingly, if the enterprise’s economic relationship with the variable interest entity or exposure to risk is not addressed by any of the disclosures provided in paragraphs 22B–26, 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 useful incremental information to financial statement users. An enterprise shall disclose how similar entities are aggregated and shall distinguish between:

- a. Variable interest entities that are not consolidated because the enterprise is not the primary beneficiary but is either the sponsor or has a significant variable interest
- b. Variable interest entities that are consolidated.

In determining whether to aggregate variable interest entities, the reporting enterprise should consider quantitative and qualitative information about the different risk and reward characteristics of each variable interest entity and the significance of each variable interest entity to the enterprise.

22C. An enterprise that (a) is a primary beneficiary in a variable interest entity, (b) holds a significant variable interest in a variable interest entity but is not the primary beneficiary, or (c) is a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest) shall disclose:

- a. Its methodology for determining whether the enterprise is (or is not) the primary beneficiary of a variable interest entity, including, but not limited to:
 - (1) Significant factors considered
 - (2) Significant assumptions and judgments made and whether a different assumption or judgment could have reasonably been made that would result in a different conclusion
- b. If a variable interest entity has been reported differently in the current financial statements (including the notes to the financial statements) than in the most recent financial statements (for example, the variable interest entity was previously consolidated and is not currently consolidated), an enterprise shall disclose the primary factors that caused the change and the effect on the enterprise's financial statements.
- c. Whether the enterprise has provided financial or other support during the periods presented to the variable interest entity that it was not previously contractually required to provide, including:

entity's obligations, the disclosures in paragraphs 22C and 23 of this FSP and paragraph 27 of Interpretation 46(R) are not required.

- c. Changes to paragraphs 24 are shown as follows:

In addition to disclosures required by other standards, an enterprise ~~An enterprise~~ that holds a significant variable interest or is a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest), 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~~ 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 the enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity cannot be quantified, that fact shall be disclosed.
- b. ~~The nature, purpose, size, and activities of the variable interest entity~~ 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 its estimated exposure to loss. If such disclosure is made, the entity shall disclose the methodology used to determine the estimated loss exposure. Such a description shall include qualitative and quantitative information, such as:
 - (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 enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity. The carrying amount and classification in the enterprise's statement of financial position of the enterprise's variable interest in the variable interest entity.~~

- d. The deletion of paragraph 25 is shown as follows:

~~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.~~

- e. The addition of paragraph 25A is shown as follows:

The disclosures required by Interpretation 46(R) may be provided in more than one note to the financial statements, 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 Interpretation 46(R) for similar entities.

- f. Changes to paragraph 26 are shown as follows:

An enterprise that does not apply ~~this~~ Interpretation 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of Interpretation 46(R) shall disclose the following information:

- a. The number of entities to which ~~this~~ Interpretation 46(R) is not being applied and the reason why the information required to apply ~~this~~ Interpretation 46(R) 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.