

Overview of FASB Statement No. 94

On July 1, 2002, the FASB issued a proposed interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, and FASB Statement No. 94, Consolidation of All Majority-Owned Subsidiaries, that would address the consolidation of special-purpose entities (SPEs). The FASB's project on SPEs is part of a major project on consolidations that has been on the FASB's agenda for about 20 years. Comments on the proposal are due August 30, 2002.

This proposed Interpretation would be applied immediately to SPEs created after the issuance date of the final Interpretation. For SPEs created before that date, the provisions of this proposed Interpretation would be applied to those SPEs still existing as of the beginning of the first fiscal year or interim period beginning after March 15, 2003. The Exposure Draft is posted on the CMSA website.

Under current practice, two enterprises generally have been included in consolidated financial statements because one enterprise controls the other through voting ownership interests. However, this situation may not apply to SPEs because SPEs have no voting interests or otherwise are not subject to control through ownership of voting interests. This proposed Interpretation would explain how to identify an SPE that is not subject to control through voting ownership interests and would require each enterprise involved with such an SPE to determine whether it provides financial support to the SPE through a variable interest. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests, or other arrangements. If an enterprise holds (a) a majority of the variable interests in the SPE or (b) a significant variable interest that is significantly more than any other party's variable interest, that enterprise would be the primary beneficiary. The primary beneficiary would be required to include the assets, liabilities, and results of the activities of the SPE in its consolidated financial statements.

An SPE would be evaluated for consolidation based on voting interests, rather than the provisions of this proposed Interpretation, if one or more parties hold equity investments that meet certain conditions. An equity investment that fails to meet these conditions would consider the investment to be a variable interest to be assessed under the provisions of the Interpretation. An equity investment would be presumed to be insufficient to allow the SPE to finance its own activities without relying on support by the variable interest holders (i.e., presumed to lack sufficient independent economic substance) unless the investment is equal to at least 10% of the SPE's total assets.

The Proposed Interpretation would require existing unconsolidated SPEs that lack sufficient independent economic substance to be consolidated by primary beneficiaries if they do not effectively disperse risks among parties involved. SPEs that effectively disperse risks would not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed.

Qualifying SPEs (QSPEs), as described in FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and other SPEs with similar characteristics are examples of SPEs that disperse risks. This proposed Interpretation would not amend the provision of Statement 140 that precludes consolidation of a QSPE by a transferor of assets to that SPE or its affiliates. However, another party may be required to consolidate a QSPE in certain circumstances. SPEs used for leasing and other activities may not be as effective at dispersing risks as QSPEs and thus would likely be subject to the consolidation provisions of the Interpretation.