



Financial Accounting Standards Board

Board Meeting Handout

Revenue Recognition in Contracts with Customers: Measurement of Rights

April 1, 2009

1. The objective of the Board meeting is to explain some of the main issues relating to the measurement of rights in a contract. Measurement of rights is one of the topics that the Boards did not address in their recently published Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*.
2. At this Board meeting, the staff will present the following three issues for discussion:
 - a. Effects of the time value of money
 - b. Effects of uncertain consideration
 - c. Noncash consideration.
3. For each issue the staff will propose questions to the Board.
4. The Boards' views on these issues will enable the staff to analyze how the Boards' proposed revenue recognition model should be articulated in an Exposure Draft. As discussed in the project plan, the staff thinks that analyzing the model at that level will identify the parts of the model that require further deliberations by the Boards at future meetings.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

BACKGROUND

5. In the Boards' proposed model, an entity accounts for its net position in a contract with a customer. The net contract position is the combination of the remaining rights and performance obligations in the contract. An entity recognizes revenue when its net contract position increases from the satisfaction of performance obligations.
6. However, when it comes to measurement, an entity does not directly measure its net contract position. Rather, the entity separately measures its rights and performance obligations.
 - a. *Measurement of performance obligations*—In the Discussion Paper, the Boards focus on the measurement of performance obligations. The Boards' preliminary view is that performance obligations should be measured by allocating the transaction price (that is, the customer consideration) to the performance obligations.
 - b. *Measurement of rights*—The Discussion Paper does not specify how an entity would measure its rights. But implicit in the Discussion Paper is the idea that the initial measurement of the rights would equal the amount allocated to the performance obligations. In other words, the Boards were clear that an entity's net contract position at inception would be zero. Consequently, an entity would not recognize revenue at contract inception but only when its contract position increases subsequently through the satisfaction of performance obligations.
7. The Boards assume in the Discussion Paper that the transaction price (that is, customer consideration) is a fixed cash amount and that the net contract position is not affected by the time value of money. However, the Boards now must consider how the measurement of rights and performance obligations is affected by the time value of money, uncertain consideration, and noncash consideration. In other words, what is the transaction price? What is the amount that an entity should initially allocate to the performance obligations?
8. To focus the Board's discussion of those questions, the staff has broken down the measurement of rights into three main issues for the Board to consider separately. The Board will consider the issues of collectibility and customer credit risk at a future meeting.

Issue 1—The Time Value of Money

9. In developing a proposed revenue recognition model to date, the Boards have ignored the time value of money for simplicity. The following discussion considers whether and how the carrying amount of an entity's net contract position should reflect the time value of money.
10. The effects of the time value of money are not apparent in most contracts with customers because there is an insignificant difference in timing between the transfer of goods and services to the customer and payment for those goods and services. Therefore, in most contracts there is no need to consider the effects of the time value of money. However, in some circumstances, there is an apparent financing component in the transaction.
11. Arguments against accounting for the financing component separately are as follows:
 - a. Increased complexity.
 - b. Potential confusion for users—it may be confusing to recognize interest on the net contract position, particularly interest expense on a contract liability, if the revenue contract does not explicitly bear interest.
 - c. Increased subjectivity—scheduling estimated inflows and outflows under the contract and determining a discount rate introduces additional subjectivity. That would reduce comparability and permit earnings management.
 - d. Inconsistency with accounting for discounts—typically, revenue is recognized net of the discount provided if a trade discount is given to a customer.
 - e. It ignores the effect of any related work in progress in a construction or manufacturing-type contract in which control of that work in progress does not transfer to the customer during the construction or manufacturing phase.

12. Arguments for accounting for the financing component separately are as follows:
- a. Comparability—entities are not indifferent to the timing of the cash flows in a contract; therefore, reflecting the time value of money portrays an important economic phenomenon in the contract.
 - b. Faithful representation—not recognizing the financing component could misrepresent the *profit* recognition of a transaction. For example, if the financing component is ignored and a customer pays in advance, the entity will recognize gains (in the form of interest earned on the cash received) from the contract before any good or service is provided to the customer.
 - c. Reasonableness of estimates—in practice, it should be possible for entities to schedule inflows and outflows under the contract and determine an appropriate interest rate in a sufficiently reliable and objective way at a reasonable cost.
 - d. Current literature explicitly addresses the issue:

For Example, APB Opinion No. 21, *Interest on Receivables and Payables*, and IAS 18, *Revenue*, address arrangements that effectively constitute a financing transaction.

13. The staff has also received input from users. Most users acknowledge the conceptual basis for reflecting the effect of the time value of money. However, they also raised concerns about introducing subjectivity into the revenue line. Moreover, they noted that in most instances the information would not be cost beneficial for the preparers to provide (an issue considered in the next section).

Staff Recommendation

14. Despite concerns about introducing subjectivity into revenue accounting, the staff thinks that the carrying amount of an entity's net contract position should reflect the time value of money.

Question for the Board

15. Does the Board agree that, in concept, the carrying amount of an entity's net contract position should reflect the time value of money?

Issue 1A—When Should the Time Value of Money Be Reflected?

16. If the Board agrees that the carrying amount of an entity's net contract position should reflect the time value of money, the Board needs to consider whether an entity should either:

Option A: Always reflect the effects of the time value of money, subject to materiality; or

Option B: Specify the circumstances in which an entity should reflect the time value of money.

Staff Recommendation

17. The staff recommends Option B. That is, the Boards specify the circumstances in which an entity should reflect the time value of money, for example, that time value of money should be reflected when payment is due approximately one year or more before or after performance.

Question for the Board

18. Does the Board agree with specifying the circumstances in which an entity should reflect the time value of money? If so, does the Board agree that it should be when payment is due approximately one year or more before or after performance?

Issue 1B—Reflecting the Effects of the Time Value of Money

19. In those cases in which there is a financing component in the transaction, the transaction price can be regarded as a composite figure consisting of (a) the cash selling price for the goods and services (assuming that there is no discount to the cash selling price agreed upon with the customer for any other reason) and (b) a financing component, either interest from the customer or to the customer.

Staff Recommendation

20. It is worth noting that until either party performs, the contract position remains at nil. Therefore, the staff recommends that no interest effects be recognized until either the

customer pays and the entity's performance is outstanding, or the entity performs and is waiting to be paid. The staff thinks this is consistent with the Boards' conclusions in the Discussion Paper.

Question for the Board

21. Does the Board agree that no interest effects should be recognized until both the customer pays and the entity's performance is outstanding, or the entity performs and is waiting to be paid?

Issue 1C—Interest/Discount Rate

22. The staff thinks that when the customer is paying in arrears, the entity implicitly is providing a loan to its customer. Conceptually, the staff thinks that the rate used should be that which reflects the customer's credit standing. Conversely, when the customer pays in advance, the entity has implicitly taken a deposit from the customer. Therefore, the rate used should reflect the credit characteristic of the liability (and so would typically reflect the entity's credit standing). However, the staff is wary of making this issue too complex.

Staff Recommendation

23. Accordingly, the staff recommends that the objective when choosing a rate should be for an entity to approximate the rate at which it and its customer would have entered into a financing transaction, independent of providing goods and services under the contract.

Question for the Board

24. Does the Board agree that the discount rate should be the rate at which the entity and its customer would have entered into a financing transaction?

Issue 1D—Presentation

25. Considering the Discussion Paper, *Preliminary Views on Financial Statement Presentation*, currently out for comment, contract assets and liabilities are likely to be classified under the business section (operating assets and liabilities) of the statement of financial position. Consequently, all changes in contract assets and liabilities would need to follow that classification in the business section in the statement of comprehensive income (operating income and expenses).

Staff Recommendation

26. The staff recommends that the financing component of a contract be presented as either:
- Option A:*** A component of the revenue figure in the statement of comprehensive income; or
- Option B:*** A disclosure. In this instance, total revenue could be presented on the face of the statement of comprehensive income, and the breakdown between revenue from goods and services and contract financing could be provided in the notes to the financial statements, along with any further disclosure thought necessary in this regard. If this method is chosen, the staff would like to remind the Board that disclosure will be the subject of a future meeting.

Question for the Board

27. Does the Board agree with reflecting the finance effect as a component of revenue? If so, should it be on either the face of the statement of comprehensive income or disclosed in the notes to the financial statements?

Issue 2—Effects of Uncertain Consideration

28. In the Boards' proposed revenue recognition model, an entity initially measures its contractual rights and performance obligations at the original transaction price—that is, the promised customer consideration amount. In developing the model to date, the Boards have assumed that the promised customer consideration amount in a contract is fixed. However, in many contracts the promised consideration amount is uncertain. Existing revenue recognition standards provide little guidance on accounting for uncertain customer consideration in contracts with customers.
29. The following questions for the Board consider the effects of uncertain customer consideration on the measurement of an entity's net contract position.

Issue 2A—The Transaction Price at Contract Inception

30. The transaction price of many contracts is uncertain at contract inception because of contractual features such as contingent consideration, variable pricing, performance bonuses/penalties, and milestone payments. In some contracts, the consideration amount is affected by the customer's behavior (for example, prices based on the customer's future sales) or the entity's behavior (for example, bonuses for timely delivery). In other contracts, the consideration amount might be affected by external factors such as market data, indexes, or the behavior of other parties.

Staff Recommendation

31. Although the Boards' Discussion Paper does not address the issue, the staff thinks that the Boards' preliminary view on the initial measurement of performance obligations suggests that an entity would determine the transaction price initially at the expected customer consideration amount. That amount is the entity's probability-weighted estimate of customer consideration.

Question for the Board

32. Does the Board agree that the transaction price at contract inception is the amount of expected consideration to be received from the customer, that is, at the entity's probability-weighted estimate of customer consideration?

Issue 2B—Changes in Transaction Price

33. After contract inception, the carrying amount of an entity's rights changes for various reasons, the most obvious of which is the decrease in rights from customer payment. The measurement of rights also is affected by changes in the transaction price throughout the contract as uncertainties are resolved.
34. As uncertainties are resolved and more information becomes available, an entity changes its estimate of consideration to be received from the customer. If the transaction price at contract inception is the expected consideration amount, then a consistent approach for determining the transaction price subsequently also would be based on the expected consideration amount at each reporting date.

Staff Recommendation

35. The staff recommends that the measurement of the rights be updated to reflect changes in the transaction price throughout a contract. First, reflecting current information would provide more useful information to users, especially in long-term contracts with frequent changes in estimates. Second, if existing standards such as AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and IAS 11, *Construction Contracts*, are to be replaced by a new standard, that new standard must provide clear guidance on how to account for changes in the transaction price throughout a contract. Moreover, the staff thinks that updating the measurement of rights is consistent with the Boards' tentative decision in the leases project to update the measurement of a lessee's obligation to pay contingent rent.

Question for the Board

36. Does the Board agree that after contract inception the measurement of rights should be updated to reflect changes in the transaction price?

Issue 2B(a)—Allocate Changes to All Performance Obligations

37. If the transaction price is updated throughout a contract as uncertainties are resolved, the Boards must decide if an entity should either:

Option A: Recognize changes in the transaction price in profit or loss when those change occur; or

Option B: Allocate changes in the transaction price to all performance obligations.

38. The staff thinks that allocating a change in the transaction price to the performance obligations would result in a pattern of revenue recognition that better depicts the transfer of goods and services to the customer. If an entity allocates a change in the transaction price to all performance obligations, the entity would recognize revenue for only the portion of the change that relates to satisfied performance obligations.
39. The staff thinks that the basis for allocating the current transaction price at each reporting date should be the same as at contract inception (that is, relative standalone selling prices at contract inception). Therefore, the cumulative revenue recognized at each reporting period date would depict the revenue that the entity would have recognized if at contract inception it had the information that is available at the subsequent reporting date. In other words, cumulative revenue would be “caught up” at each reporting date.

Staff Recommendation

40. The staff recommends Option. That is, the entity should update the measurement of rights to reflect the current transaction price after contract inception. Changes in the transaction price should be allocated to all performance obligations. Consequently, the entity would recognize those changes in profit or loss only to the extent that they relate to satisfied performance obligations.

Question for the Board

41. If the measurement of the rights is updated to reflect changes in the transaction price, does the Board agree that those changes should be allocated to the performance obligations (Option B)? Consequently, an entity would recognize revenue for changes in the transaction price only when those changes relate to satisfied performance obligations.

Issue 2C—Alternative to an Expected Consideration Approach

42. A consequence of an expected consideration approach is that an entity might reverse revenue from a change in expectations. To minimize (or avoid) the possibility of revenue reversals, the Boards could specify an alternative approach of determining the transaction price. Three alternatives are:

Option A: Limit the transaction price to scenarios of a specified probability.

Option B: Limit cumulative revenue to certain consideration.

Option C: Limit the transaction price to certain consideration.

Option A

43. One way to constrain an expected consideration approach would be to limit the transaction price to scenarios of a specified probability (for example, the “most likely” consideration from the customer). That constrained amount would be allocated to the performance obligations.
44. The staff notes a few disadvantages of this approach. First, any specified probability could be viewed as subjective. Second, limiting the transaction price might result in an amount being allocated to performance obligations that is not a useful measurement of the performance obligations. Third, if the company recognizes more revenue than consideration received throughout the contract, and the actual consideration received is less than the initial consideration promised, the company would have to reverse revenue that was recognized in a previous period.

Option B

45. Another way to constrain an expected consideration approach would be to limit the cumulative revenue recognized in a contract to the certain consideration amount to be received. In other words, an entity would allocate the total expected consideration to performance obligations and recognize revenue as those performance obligations are satisfied. However, an entity would be precluded from recognizing cumulative revenue in excess of the certain consideration in the contract. Therefore, an entity would avoid the possibility of reversing revenue from changes in expectations.
46. Limiting cumulative revenue to the certain consideration amount is similar to the approach of EITF Issue No. 91-6, “Revenue Recognition of Long-Term Power Sales Contracts,” in which cumulative revenue recognized is the lesser of the amount billable (that is, “certain”) under the contract or an amount determined by assessing the transfer of goods and services to the customer and the total expected revenue.

Option C

47. As another alternative, an entity could determine the transaction price as the certain consideration to be received from the customer. That certain amount would be allocated to performance obligations.
48. In U.S. GAAP, EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables,” takes that approach. Paragraph 14 of Issue 00-21 states that the consideration allocated to elements of an arrangement is limited to the noncontingent amount. Arguably, that approach also is similar to accounting for contingent gain and assets in U.S. GAAP and IFRS in which a gain is not recognized until all contingencies have been resolved.
49. If an entity does not recognize revenue because no customer consideration amount is certain, then some might argue that the entity should defer any costs incurred until revenue can be recognized. That accounting would result in an entity recognizing a deferred debit and expense reduction rather than an increase in the contract position and revenue. The

staff thinks that recognizing the increase in the contract position and revenue better depicts the economics of an entity satisfying a performance obligation.

Staff Recommendation

50. If the Boards decide to constrain an expected consideration approach, the staff recommends Option B for a couple of reasons. First, it results in more useful measurement of performance obligations than Options A and C because it limits the revenue (and measurement of rights) rather than limiting the transaction price (and measurement of the rights and the performance obligations). The measurement of performance obligations under Option B is based on the entity's expectations of the promises exchanged with the customer. Under Options A and C, a constrained or certain consideration amount is allocated to the performance obligations and would not depict the entity's expectations in the exchange. Second, Option B effectively avoids the possibility of negative revenue in the Boards' proposed model. That possibility seems to be the primary reason for some people wanting to constrain the expected consideration approach.

Question for the Board

51. Does the Board think that an expected consideration approach should be constrained to minimize the risk of reversing revenue? If so, does the Board agree that cumulative revenue should be limited to the amount of certain consideration (Option B)?

Issue 2D—Uncertainty Relating to Only a Segment of a Contract

52. Issue 2B only discusses situations in which the uncertain consideration amount clearly relates to all the performance obligations in the contract. However, in many contracts the uncertain consideration might appear to relate to only one of many performance obligations.

Staff Recommendation

53. The staff recommends that a change in the transaction price be allocated to all performance obligations in a contract.

Question for the Board

54. Does the Board agree that a change in the transaction price should be allocated to all performance obligations in a contract? If not, what is the basis for excluding some performance obligations from the allocation of a change in the transaction price?

Issue 3—Noncash Consideration

55. In developing the proposed revenue recognition model to date, the Boards have considered only contracts in which customer consideration is in the form of cash. However, customer consideration might be in the form of goods, services, or other noncash consideration.
56. The objective of this discussion is for the Board is to consider how an entity would determine the transaction price when the customer promises noncash consideration. It assumes that the noncash consideration is due when the entity satisfies its performance obligation. This Board meeting handout also covers the related issue of whether some contracts involving the exchange of goods and services should generate revenue.

Issue 3A—Noncash Consideration

57. When an entity receives cash from a customer upon delivery of the goods and services promised in a contract, the entity measures the customer's consideration at the amount of cash received, that is, at the value of the inbound asset. To be consistent with that approach when the customer pays noncash consideration, the entity also should measure noncash consideration at the value of the asset received.
58. Paragraphs 9–12 of IAS 18 state that the basis for measuring revenue is the fair value of the consideration received (regardless of the form of that consideration). IFRIC 18, *Transfers of Assets from Customers*, similarly requires an entity to measure an asset received from a customer at fair value.

Staff Recommendation

59. The staff recommends measuring noncash consideration at fair value.

Question for the Board

60. Does the Board agree that, in principle, an entity should measure its right to noncash consideration at the fair value of the promised consideration?

Issue 3B—Modifications of the Measurement Basis

61. If the Board decides that entities should measure a right to noncash consideration at fair value, the Board must decide whether to modify that basis in some circumstances—as existing standards do. Existing standards modify the measurement basis for noncash consideration if:
- a. Fair value cannot be measured reliably.
 - b. The exchange transaction facilitates a sale to another customer.
 - c. The exchange transaction lacks commercial substance.

Issue 3B(a)—Fair Value Cannot Be Measured Reliably

62. In some contracts, an entity might not be able to measure reliably the fair value of the promised noncash consideration. In those cases, IAS 18 requires that an entity refer to the fair value of the goods and services provided to the customer to measure noncash consideration. In U.S. GAAP, APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, similarly requires an entity to measure the fair value of the asset received indirectly by reference to the fair value of the asset surrendered (unless the fair value of the asset received is more clearly evident).
63. Some might think that constraining estimates of the fair value of noncash consideration conflicts with the Boards' proposal to increase the use of estimates of standalone selling prices when allocating the transaction price to performance obligations. However, estimates of standalone selling prices affect the timing of revenue recognition in the Boards' proposed revenue recognition model, but not the total *amount* of revenue recognized.

Staff Recommendation

64. Accordingly, the staff recommends that if an entity cannot reliably measure the fair value of the promised noncash consideration directly, it should measure the consideration indirectly by reference to the fair value of the goods and services exchanged for the noncash consideration.

Question for the Board

65. Does the Board agree that if an entity cannot reliably measure the fair value of the noncash consideration directly, it should measure the promised consideration indirectly by reference to the fair value of the goods and services exchanged for the noncash consideration?
66. Does the Board think that the revenue recognition standard should include guidance on when the fair value of an asset received can be measured reliably in the absence of comparable market transactions?

Issue 3B(b)—Exchange Transaction to Facilitate Sales to Customers

67. In some cases, the parties to a contract exchange assets of a similar nature to facilitate sales to their own end customers. An example of that type of transaction is an oil supplier that swaps inventory with another oil supplier to reduce transportation costs, meet immediate inventory needs, or otherwise facilitate the sale of oil to the end consumer.
68. In contrast to existing standards, the Boards' revenue recognition model as developed to date would not preclude an entity from recognizing revenue (or gains) in an exchange of similar goods or services.
69. Some might think that the proposed model should preclude revenue recognition if inventory is swapped with a fellow market participant. However, the fellow market participant would meet the Boards' proposed definition of a customer.
70. In the staff's view, the risk that companies might artificially inflate revenue should be mitigated by a commercial substance test, as discussed in Issue 3B(c).

Staff Recommendation

71. The staff recommends that the Boards' proposed model allow an entity to recognize revenue if, in a substantive contract, the customer promises noncash consideration that is similar in nature and value to the goods and services the entity provides to the customer. The staff thinks that a contract with a customer, as defined in the Discussion Paper, generates revenue for an entity. If the Boards decide that revenue recognition should be precluded in an exchange of similar assets, the staff thinks the Boards should modify the definition of a contract or a customer, or constrain the model in some way other than measurement of the noncash consideration.

Question for the Board

72. Does the Board agree that in principle an entity should be allowed to recognize revenue in a contract for an exchange of similar goods or services?

Issue 3B(c)—Exchange Transaction Lacks Commercial Substance

73. Neither U.S. GAAP nor IFRS allows an entity to measure noncash consideration at fair value if the transaction lacks “commercial substance.”¹ In those transactions, the asset acquired is measured at the carrying value of the asset transferred, that is, no profit is recognized.
74. The staff thinks that a new revenue recognition standard also should have a commercial substance test. Noncash consideration has been an area of significant financial reporting abuse in the past. One such example is “round-tripping” whereby companies transfer goods and services back and forth to each other, often with little or no cash consideration, with the purpose of artificially inflating revenue.
75. Therefore, a contract, in which goods or services are exchanged or swapped for goods or services that are of a similar nature, would not be regarded as a revenue-generating contract if that contract lacks commercial substance.

¹ Paragraphs 21 and 22 of Opinion 29; paragraphs 24 and 25 of IAS 16, *Property, Plant and Equipment*; and paragraphs 45 and 46 of IAS 38, *Intangible Assets*.

76. Both FASB Statement No. 153, *Exchanges of Nonmonetary Assets*, and IAS 16, *Property, Plant and Equipment*, provide guidance on commercial substance.

Staff Recommendation

77. The staff proposes carrying forward the guidance in Statement 153 because that guidance incorporates improvements to the notion of commercial substance introduced in IAS 16. As a result, an entity that enters into an exchange contract that lacks commercial substance would measure the asset received (consideration) based on the carrying amount of the assets surrendered, which in the case of many service contracts would be zero.

Question for the Board

78. Does the Boards agree that a new revenue standard should have a commercial substance test (similar to Statement 153 and IAS 16) to exclude nonsubstantive exchange contracts from generating revenue?

Issue 3C—Application of the Measurement Basis to Barter Transactions

79. Many contracts involving noncash consideration relate to exchanges of advertising services or other barter credits. For example, a company might promise to transfer a good or a service in exchange for advertising time or barter credits from the customer (or a network of advertisers to which the customer belongs). Or a company might promise to provide advertising services to its customer in exchange for advertising services.
80. Historically, companies applied Opinion 29 and IAS 18 to account for those transactions. However, additional application guidance has been issued in EITF Issue No. 93-11, “Accounting for Barter Transactions Involving Barter Credits,” EITF Issue No. 99-17, “Accounting for Advertising Barter Transactions,” and SIC Interpretation 31, *Barter Transactions Involving Advertising Services*.
81. That additional application guidance was deemed necessary because of diversity in practice whereby for similar transactions some companies would recognize revenue at the fair value of the goods or services received, others based on the fair value of the goods or

services transferred, and others based on the historical cost of the goods or services transferred.

Staff Recommendation

82. The staff thinks that a new revenue recognition standard should not contain specific guidance on those types of arrangements. Therefore, an entity would recognize revenue based on the fair value of the services received if that fair value can be reliably measured in a barter transaction involving advertising services. If not, the entity would recognize revenue based on the fair value of services provided. If the contract lacks commercial substance, no revenue would be recognized and the entity would recognize the service received based on the carrying amount of the assets surrendered (which is likely to be zero).

Question for the Board

83. Does the Board agree with the staff's recommendation?



Financial Accounting Standards Board

Board Meeting Handout
REDELIBERATION OF THE PROPOSED FASB STATEMENT,
ACCOUNTING FOR TRANSFERS OF FINANCIAL ASSETS
Statement 140 Disclosures
April 1, 2009

PURPOSE

The purpose of this meeting is to discuss issues related to the disclosures in the proposed FASB Statement, *Accounting for Transfers of Financial Assets*, and to assist the Board in understanding proposed changes to the disclosures for the final Statement. The Board decided to make a number of revisions to the disclosures in FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*, to address concerns raised in comment letters, the roundtable, and from external reviewers. The staff will ask the Board to decide whether changes made to the FSP also should be included in the final Statement, and whether any further revisions are required.

ISSUE 1: UPDATING THE DISCLOSURES IN THE PROPOSED STATEMENT TO REFLECT THE CHANGES MADE TO THE DISCLOSURES IN FSP FAS 140-4 AND FIN 46(R)-8

The staff held post-implementation discussions with preparers, auditors, and users to evaluate the understandability and usefulness of the disclosures in the FSP. Preparers and auditors suggested providing more guidance on significant continuing involvements. Users recommended mandating specific categories in a standardized tabular format in the disclosures for certain types of financial assets transferred.

The staff will ask the Board to consider the following alternatives:

1. Alternative A: Update the disclosures in the proposed Statement to only reflect the changes made during redeliberations to the disclosures in the FSP.
2. Alternative B: Update the disclosures in the proposed Statement to reflect the changes made during redeliberations to the disclosures in the FSP, and make one or all of the following changes:
 - (a) Alternative B1: Explicitly state that the disclosures are only applicable to significant continuing involvements.

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- (b) Alternative B2: Include examples of types of financial assets transferred.
- (c) Alternative B3: Require a standardized tabular format for the disclosures.

Staff Recommendation

The staff recommends Alternative A. The staff does not recommend providing further guidance on significant continuing involvements consistent with the conclusions reached by the Board during redeliberations of the FSP. Additionally, the staff does not recommend including examples of specific types of financial assets transferred or requiring a standardized tabular format for the disclosures.

Question for the Board: Does the Board agree with the staff's recommendation?

ISSUE 2: ISSUES FROM FSP FAS 140-4 AND FIN 46(R)-8

During redeliberations of the FSP, the staff recommended that the Board revisit the following issues during redeliberations of the proposed Statement.

Issue 2(a): Whether to Provide Illustrations of the Disclosures in the Final Statement

The staff's recent discussions with preparers and auditors indicated that the disclosure requirements in the FSP are understandable and that there have been no significant implementation issues. Additionally, for nonpublic entities that are not subject to the disclosures in the FSP, the disclosures that have already been provided by public entities subject to the FSP will serve as an example of how to comply with the disclosures in the final Statement.

Staff Recommendation

The staff recommends not including illustrations of the disclosures in the final Statement.

Question for the Board: Does the Board agree with the staff's recommendation?

Issue 2(b): Whether to Change and Expand the Scope of the Sensitivity Analysis Disclosure

This disclosure was carried over from the original disclosure requirement in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and was not altered in the FSP or in the proposed Statement. The staff notes that in the project to improve and expand disclosures about fair value measurements in FASB Statement No. 157, *Fair Value Measurements*, whether to include a sensitivity analysis disclosure in Statement 157 that would be applicable to financial instruments measured at fair value is being considered.

Staff Recommendation

The staff thinks the sensitivity analysis will be analyzed and addressed further in the broader project on fair value measurement and that it is not necessary to make changes to the proposed Statement.

Question for the Board: Does the Board agree with the staff's recommendation?

Issue 2(c): Whether the Scope of the Disclosures in the Proposed Statement Should Be Expanded to All Transfers of Financial Assets

The proposed Statement requires enhanced disclosures for financial assets transferred to a special-purpose entity. A few respondents recommended that the disclosures should be required for all transfers of financial assets.

Staff Recommendation

The staff recommends expanding the disclosures in the proposed Statement to all transfers of financial assets accounted for as sales. The staff notes that the purpose of enhancing the disclosures in the proposed Statement is to provide more useful information to users regarding:

1. A transferor's continuing involvement with transferred financial assets
2. The nature of any restrictions on assets reported by an entity in its statement of financial position that relate to a transferred financial asset
3. How a transfer of financial assets affects an entity's financial position, financial performance, and cash flows.

The staff thinks that this information is important to users regardless of whether the transfer is a securitization, asset-backed financing, or other type of transfer. For example, users have indicated that they want information about obligations to repurchase assets, liquidity arrangements, and instances in which an entity has provided financial support that it was not previously contractually required to provide. However, in comment letters and discussions with the staff, users have not specified that the information is only needed when an entity transfers financial assets to a special-purpose entity.

Question for the Board: Does the Board agree with the staff's recommendation?

Issue 2(d): Whether the Disclosures Should Be Different for Nonpublic Entities

The proposed Statement includes the same disclosures for public and nonpublic entities. A few respondents recommended that the disclosures remain the same for public and nonpublic entities.

Staff Recommendation

The staff thinks that the disclosures in the final Statement should be required for nonpublic entities. Additionally, the staff thinks that the disclosures that are currently being provided by public entities to comply with the FSP should serve as an example of how to comply with the disclosures in the final Statement.

Question for the Board: Does the Board agree with the staff's recommendation?

ISSUE 3: DISCLOSURES ABOUT THE GAIN OR LOSS ON SALE OF TRANSFERRED FINANCIAL ASSETS

During redeliberations of the proposed Statement, several Board members suggested that the staff consider including disclosures in the final Statement about instances in which a transferor transfers a financial asset to a nonconsolidated entity that qualifies as a sale and obtains an interest in the assets of the nonconsolidated entity that mimics the original financial asset that was transferred. In this instance, the transferor recognizes a new asset representing the obtained interests from the nonconsolidated entity along with any gain or loss on the sale resulting from the difference between the carrying amount of the transferred financial assets and the fair value of the assets obtained in the exchange.

The proposed Statement included a requirement to disclose the following information for transfers of financial assets to a special-purpose entity accounted for as a sale:

1. The characteristics of the transfer, including a description of the transferor's continuing involvement
2. The gain or loss from the sale of financial assets, including quantitative information about how the gain or loss was determined.

The staff will ask the Board to consider whether disclosure of the nature of the beneficial interests received as proceeds from the sale also should be required.

Staff Recommendation

The staff believes that the language in paragraph B11(a)(2) of the FSP could be modified as follows: [Added text is underlined.]

The characteristics of the transfer, including a description of the transferor's continuing involvement (including, but not limited to the nature of the beneficial interests received as proceeds from the sale) with the transferred financial assets and the gain or loss from sale of transferred financial assets

The staff thinks that a description of the nature of the beneficial interests obtained in a transfer that is accounted for as a sale will enable users to determine whether those beneficial interests are similar in nature to the original assets transferred.

Question for the Board: Does the Board agree with the staff's recommendation?

ISSUE 4: CONSIDERATION OF THE IASB'S PROPOSED DISCLOSURES FOR DERECOGNITION OF FINANCIAL ASSETS

The IASB is currently finalizing its Exposure Draft to amend the derecognition guidance for financial assets in IAS 39, *Financial Instruments: Recognition and Measurement*, and related disclosures in IFRS 7, *Financial Instruments: Disclosures*. The IASB Exposure Draft includes enhanced disclosures for transfers of financial assets, many of which are the same or similar to the disclosures in the proposed Statement.

The staff provided an analysis of the disclosures in the IASB Exposure Draft to the Board. The staff will ask the Board to consider whether to add language requiring an entity to disclose the maximum exposure to loss as a result of its continuing involvement with transferred financial assets accounted for as a sale.

Staff Recommendation

The staff recommends that the maximum exposure to loss disclosure be included in the final Statement. Although this disclosure would not be a significant change from what is already required by other accounting standards, such as in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, the staff thinks it will clarify and emphasize what is required to be disclosed when a transfer of financial assets has occurred.

Question for the Board: Does the Board agree with the staff's recommendation?

Board Meeting Handout*
Ratification of EITF Consensuses-for-Exposure¹
April 1, 2009

At today's meeting, the staff will request that the Board consider ratifying the consensuses-for-exposure on two Issues that were reached at the March 19, 2009 EITF meeting.

Task Force Consensuses-for-Exposure:

1. Issue No. 08-9, "Milestone Method of Revenue Recognition"—The Task Force reached a consensus-for-exposure that this Issue may be applied to a single deliverable or unit of accounting arising from arrangements under which a vendor satisfies its performance obligations to a customer over a period of time, and when a portion or all of the arrangement consideration is contingent upon uncertain future events or circumstances, except when the guidance in this Issue conflicts with other authoritative literature that provides guidance with respect to the revenue recognition convention for the single deliverable or unit of accounting.

The Task Force reached a consensus-for-exposure that an entity shall disclose its accounting policy for the recognition of milestone payments as revenue in accordance with Opinion 22. For those entities electing to apply the guidance in this Issue, the following information shall be disclosed in the notes to the financial statements for each arrangement that includes a material milestone payment: (a) a description of the overall arrangement, (b) a description of the individual milestones and related contingent consideration, (c) a determination as to whether the milestones are considered substantive, (d) a list of the factors considered by the entity in making its assessment of whether the milestones are substantive, and (e) the amount of milestone consideration earned during the period.

The Task Force reached a consensus-for-exposure that the adoption of this Issue shall conform to the requirements of Statement 154, including justifying a change in the method of applying an accounting principle on the basis of preferability as specified by paragraphs 12–14 of that Statement, if applicable.

2. Issue No. 09-1, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance"—The Task Force reached a consensus-for-exposure that this Issue applies to entities that enter into share-lending arrangements on their own shares in contemplation of a convertible debt offering or other financing.

The Task Force reached a consensus-for-exposure that the following disclosure, in addition to the disclosure required by Statement 129, be made in the annual financial statements for any period in which a share-lending arrangement is outstanding.

* The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

¹ Consensuses-for-exposure refers to conclusions reached by the Task Force on an Issue indicating that the Issue has been approved for release as a draft abstract (exposure draft) subject to Board ratification.

An entity is required to disclose (a) a description of any outstanding share-lending arrangements on an entity's own stock and all significant terms of the share-lending arrangement including the number of shares, the term, the circumstances under which cash settlement would be required, and any requirements for the counterparty to provide collateral, (b) the entity's reason for entering into the share-lending arrangement, (c) the fair value of the outstanding loaned shares as of the balance sheet date, (d) the treatment of the share lending arrangement for the purposes of calculating earnings per share, (e) the unamortized amount and classification of the debt issuance costs associated with the share-lending arrangement at the balance sheet date, and (f) the amount of interest expense recognized relating to the amortization of the debt issuance cost associated with the share-lending arrangement for the reporting period.

The Task Force reached a consensus-for-exposure that this Issue shall be effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. This consensus requires retrospective application for all arrangements outstanding as of the beginning of the fiscal year in which this Issue is initially applied. The transition disclosures of paragraphs 17 and 18 of Statement 154 shall be provided.



Board Meeting Handout

Proposed FASB Statement, *Amendments to FASB Interpretation No. 46(R)* Redeliberation of Issues April 1, 2009

INTRODUCTION

1. At this meeting, the Board will deliberate the following three issues as outlined in this handout:
 - a. Issue 1: Disclosures (paragraphs 2-5)
 - b. Issue 2: Related party guidance (paragraphs 6-23)
 - c. Issue 3: Separate classification of elements (paragraphs 24-30)

ISSUE 1: DISCLOSURES

Background

2. At the March 18, 2009 Board meeting, the staff was asked to provide the Board with an analysis of its discussions with constituents regarding the implementation of FASB Staff Position FAS 140-4 and FIN 46(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.” The primary purpose of this analysis was to determine whether any significant issues arose from the implementation of the FSP and the related analyses performed by users of financial statements.
3. The Board also agreed that a requirement should be added to the proposed disclosures for situations in which an enterprise concludes that the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance is, in fact, shared.

Staff Recommendation

4. The constituents the staff consulted with generally asserted that the requirements in the FSP are understandable and that no significant implementation or auditing issues have occurred. Absent any further disclosure requests from users of financial statements, the staff believes that no additional deliberations regarding disclosures are necessary. The staff recommends retaining disclosures consistent with those applicable to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, within the FSP with only minor editorial changes. In addition, the staff recommends the following disclosure requirement be added to paragraph 24 of Interpretation 46(R) for situations in which an enterprise concludes that its power is shared:

If applicable, significant factors considered and judgments made in determining that power to direct the activities of a variable interest that most significantly impact its economic performance is shared pursuant to the guidance in paragraph 14X.

Question for the Board

5. Does the Board agree with the staff's recommendations?

ISSUE 2: RELATED PARTY GUIDANCE

Background

Mutual Transfer Restrictions (Paragraph 16 of Interpretation 46(R))

6. Paragraph 16 of Interpretation 46(R) provides overall guidance on related parties, which include parties that act as de facto agents or de facto principals of a variable interest holder. Certain constituents were concerned that for purposes of applying the consolidation guidance in paragraph 14 of the proposed amendments to Interpretation 46(R), including shared power, that the guidance in paragraph 16(d)(1) indicates that “a party that has an agreement that it cannot sell, transfer, or encumber its interests in the

entity without the prior approval of the enterprise” is considered a related party of the enterprise performing the consolidation analysis. Constituents expressed concern that paragraph 16(d)(1) could require many enterprises to consolidate VIEs when “power” is, in fact, shared. The primary concern is regarding situations where mutual transfer restrictions exist in a variable interest entity whereby each investor does not have the ability to transfer its interest without the prior approval of the other party, primarily to preserve the strategic intent of a VIE.

7. These constituents requested that the Board provide an exemption from the guidance in paragraph 16(d)(1), as they believe that such guidance was not intended to capture mutual transfer restrictions agreed upon by willing independent parties for the purpose of mitigating the risk that the entity will not achieve its business objectives.

8. The staff notes that paragraph D43 of Interpretation 46(R) already indicates certain situations and factors where approval rights do not create a de facto agency relationship. Specifically, the Board concluded that, “if the right of prior approval is designed solely to prevent transfer of the interest to a competitor or to a less creditworthy, or otherwise less qualified holder, and such parties are not the only potential purchasers of the interest, the right would not create a de facto agency relationship.”

Alternatives for Board Consideration and Staff Recommendation

- Alternative A – Do not amend the guidance in criterion 16(d)(1) for substantive mutual restrictions.
- Alternative B – Amend criterion 16(d)(1) to provide an exemption for substantive mutual transfer restrictions.
- Alternative C – Same as Alternative A, but amend paragraph 17 to provide a scope exemption for mutual transfer restrictions from the analysis of which party within a related party group is the primary beneficiary.

9. The staff recommends Alternative B. In recommending this view, the staff wants to preserve the Board’s original basis for the guidance in paragraph 16(d)(1) cited in paragraph E38 of Interpretation 46(R), which was to prevent a variable interest holder

from avoiding consolidation of a VIE "by arranging to protect its interest or indirectly expand its holding through other parties." The staff believes situations exist in which mutual transfer restrictions have a substantive business purpose and are not used by an interest holder to circumvent consolidation. The staff thinks that by not providing an exception for substantive mutual transfer restrictions, consolidation by an enterprise that does not have the ability to direct the activities of a VIE that most significantly impact its economic performance may be required.

10. The staff also notes that in determining whether an entity is a business in paragraph 4(h) of Interpretation 46(R) and in determining whether an entity is a variable interest entity pursuant to the provisions of paragraph 5(c) of the Interpretation 46(R), the requirements for de facto agents in item 16(d)(1) are excluded from the analyses.

11. The staff recommends that paragraph 16(d)(1) be amended as follows:

A party that has (1) an agreement that it cannot sell, transfer, or encumber its interests in the entity without the prior approval of the enterprise or (2) a close business relationship like the relationship between a professional service provider and one of its significant clients. The right of prior approval creates a de facto agency relationship only if that right could constrain the other party's ability to manage the economic risks or realize the economic rewards from its interests in a variable interest entity through the sale, transfer, or encumbrance of those interests. A de facto agency relationship does not exist if (a) both the enterprise and the party have right of prior approval and such rights are substantive, (b) the rights are based on mutually agreed terms by willing, independent parties, and (c) the rights are not used in an effort to circumvent the provisions of this Interpretation.

12. The staff emphasizes that the existence of a substantive transfer restriction does not obviate the need for each party subject to such a restriction to determine if it is the primary beneficiary of a variable interest entity pursuant to the requirements of paragraph 14 of the proposed amendments.

Questions for the Board

13. Does the Board agree with the staff's recommendation?

14. If not, which Alternative does the Board support?

Determining Which Party within the Related Party Group is Most Closely Associated with the Variable Interest Entity (Paragraph 17 of the Proposed Amendments)

15. Paragraph 17 of the proposed amendments to Interpretation 46(R) provides guidance for determining which party within a related party group, in situations where the related party group is determined to be the primary beneficiary of a variable interest entity (VIE), is required to consolidate the VIE.

16. In its deliberations prior to the issuance of the Exposure Draft of the proposed amendments to Interpretation 46(R), the Board concluded that an additional factor be added to the factors to be considered for determining which party within a related party group must consolidate a variable interest. This factor requires parties to consider which party in the related party group has the “power” to direct matters that most significantly impact the activities of a VIE, consistent with the guidance in paragraph 14 of the proposed amendments for determining the primary beneficiary. The Board concluded that this factor should be analyzed in conjunction with factors (a)-(d), which existed in Interpretation 46(R).

17. Respondents to the Exposure Draft requested further guidance be provided as to which factor within paragraph 17 of the proposed amendments should be weighted more than the others (factors (a)-(e) in paragraph 17 of the proposed Statement and documented within paragraph 5 above). Constituents also suggested that if the Board concludes that if the quantitative analysis previously required in Interpretation 46(R) be eliminated for purposes of determining the primary beneficiary in paragraph 14 of the proposed amendments, factor (c) in paragraph 17, “a party’s exposure to the expected losses of the variable interest entity,” should also be eliminated.

Alternatives for Board Consideration and Staff Recommendation

- Alternative A – Do not amend the guidance in paragraph 17 of the proposed Statement.
- Alternative A’ – Same as Alternative A except eliminate factor (c).
- Alternative B – Amend paragraph 17 to (1) eliminate factors (c) and (e) and (2) require a party within a related party group to first consider whether it is the primary beneficiary through the required consolidation analysis in paragraph 14 of the proposed Statement (except a party within a related party group could not conclude that power is shared). If no party within a related party group meets the criteria in paragraph 14, the determination of the primary beneficiary shall be based on an analysis of the remaining criteria in paragraph 17 with the objective of determining which party is most closely associated with the VIE.
- Alternative C – Amend paragraph 17 to require a party within a related party group to consolidate based on the consolidation analysis in paragraph 14. Clarify that a party within a related party group could not conclude that power is shared. Remove the remaining criteria from paragraph 17.

18. The staff recommends Alternative B and recommends that paragraph 17 be amended as follows:

If two or more related parties (including the de facto agents described in paragraph 16) hold variable interests in the same variable interest entity, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then the party, within the related party group, that meets criteria a and b in paragraph 14A is the primary beneficiary. However, a party within a related party group cannot conclude that power is shared pursuant to paragraph 14X. If no single party meets criteria a and b in paragraph 14A, then the primary beneficiary shall be the party within the related party group that is most closely associated with the variable interest entity. ~~is the primary beneficiary.~~ The determination of which party within the related party group is most closely associated with the variable interest entity requires judgment and shall be based on an analysis of all relevant facts and circumstances, including:

- a. The existence of a principal-agency relationship between parties within the related party group

- b. The relationship and significance of the activities of the variable interest entity to the various parties within the related party group
- ~~c. A party's exposure to the expected losses of the variable interest entity~~
- d. The design of the variable interest entity
- ~~e. The extent to which a party meets criteria a and b in paragraph 14A.~~

19. The staff emphasizes that the overall consolidation principle within the proposed amendments has been changed from a pure risks and rewards model via the required quantitative analysis in Interpretation 46(R) to an analysis of which party has both the power to direct the activities of a variable interest entity that impact the entity's economic performance and the right to receive benefits or the obligation to absorb losses that could be significant to the variable interest entity. As paragraph 17 is also a consolidation analysis, the staff believes that it should be based on the overall principle in paragraph 14 of the proposed amendments, except that a party within the related party group must be identified as the primary beneficiary.

20. If a party within the related party group is unable to determine whether it is the primary beneficiary of a variable interest entity, the staff believes that retaining the guidance in paragraph 17 for determining which party is "most closely associated with" the variable interest entity should be retained, as it provides effective and understandable guidance for determining a controlling interest. However, since the Board concluded that the quantitative analysis as prescribed in Interpretation 46(R) be removed from the primary beneficiary assessment, the staff believes that factor (c) in paragraph 17 should be eliminated from the related party consolidation model.

21. The staff acknowledges that one alternative would be to simply force constituents to decide which party within a related party group meets the criteria in paragraph 14 of the proposed Statement. However, the staff notes that the Exposure Draft retained the paragraph 17 analysis and that the evaluation of which party has power in a related party group will be inherently more difficult than in other situations (which would represent an argument for retaining the consideration of the specified factors in paragraph 17).

Questions for the Board

22. Does the Board agree with the staff's recommendation?

23. If not, which Alternative does the Board support?

ISSUE 3: SEPARATE CLASSIFICATION OF ELEMENTS

Background

24. At the January 28, 2009 Board meeting, the staff recommended that the Board permit, but not require, separate presentation of elements of consolidated VIEs in the primary beneficiary's financial statements. Board members discussed whether there should be delineation between when (a) certain assets are required to pay off certain liabilities, (b) the liabilities are linked to assets or (c) general purpose assets of the consolidating enterprise may be used to fund liabilities of a consolidated VIE.

25. The Board asked the staff to further analyze the implications of separate classification of elements of consolidated VIEs, including whether separate classification should be permitted or required on the face of the financial statements in certain situations. The Board also asked the staff to consider whether separate presentation is already permitted or required by other GAAP. Further, the Board asked the staff to provide a recommendation regarding which, if any, consolidated elements should require separate classification.

Alternatives for Board Consideration and Staff Recommendation

- Alternative A – Permit, but do not require, separate classification of all elements of consolidated VIEs on the face of the primary beneficiary's financial statements.
- Alternative B – Require separate classification of all elements of consolidated VIEs on the face of the primary beneficiary's financial statements.

- Alternative C – Require separate classification on the face of the primary beneficiary’s balance sheet for those assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs.¹
- Alternative C’ – Same as Alternative C, and, in addition, require separate classification on the face of the primary beneficiary’s balance sheet for those liabilities of consolidated VIEs for which creditors (or beneficial interest holders) of the consolidated VIE have no recourse to the general credit of the primary beneficiary.²

In Alternatives C and C’, separate classification of the remaining elements of the VIE would be permitted, but not required, if it is deemed that such reporting provides more useful information to financial statement users and is not otherwise required by GAAP.

- Alternative D – Clarify that the information that is required to be disclosed pursuant to paragraphs 23(b) and 23(c) of the proposed Statement can either be presented in the footnotes or on the face of the financial statements. Also specify that separate classification of the remaining elements of the VIE would be permitted, but not required, if it is deemed that such reporting provides more useful information to financial statement users and is not otherwise required by GAAP.
- Alternative E – Require a single line-item display to separately classify both assets and liabilities of consolidated VIEs, with additional explanation in the notes to the financial statements regarding the composition of the single line item.

26. The staff recommends Alternative C’. The staff believes that separate classification of elements of consolidated VIEs provides additional useful information to users of the financial statements by providing more information about the assets and liabilities that may be consolidated as a result of the proposed Statement. The information that would be most useful to investors includes (a) assets whose proceeds are restricted solely to funding the liabilities of the enterprise’s consolidated VIEs and (b) liabilities of an enterprise’s consolidated VIEs in which creditors have no recourse to the general credit of the primary beneficiary. The staff believes that requiring separate presentation of such elements provides users with meaningful information and promotes consistency in financial reporting.

¹ The staff notes that this information is already required to be disclosed based on paragraph 23(b) of the proposed Statement.

² The staff notes that this information is already required to be disclosed based on paragraph 23(c) of the proposed Statement.

27. Although the staff believes that separate presentation is already permitted when a reporting enterprise concludes that such presentation is beneficial to users of financial statements, the staff believes the Board should explicitly state that this presentation is permitted for other assets and liabilities of consolidated VIEs in order to resolve any ambiguity regarding the acceptability of separately classifying information related to consolidated VIEs under U.S. GAAP.

28. The staff also notes that this recommendation is consistent with other authoritative literature, including FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, and FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*.

Questions for the Board

29. Does the Board agree with the staff's recommendation?

30. If not, which Alternative does the Board support?