News Bulletin

November 16, 2009

FASB Proposes to Defer Application of FAS 167 to Certain Investment Funds

At its November 11, 2009 board meeting, the Financial Accounting Standards Board ("FASB") proposed deferring Financial Accounting Statement 167, "Amendments to FASB Interpretation No. 46(R)" ("FAS 167"), as well as amendments to the guidance accompanying FAS 167. Both the proposed deferral of, and amendments to, FAS 167 are limited in scope. The revisions have been proposed in order to provide FASB with more time to coordinate with the International Accounting Standards Board ("IASB") on a joint model that takes into consideration the relationship between asset managers and the investment structures they manage. For entities who meet the deferral criteria, the application of FAS 167 will be deferred until the FASB-IASB convergence project is completed in late 2010. The guidance amendments will become effective upon approval by FASB members following a public comment period.

Deferral

FASB's proposed deferral is available only to money market funds subject to Rule 2a-7 of the Investment Company Act of 1940, and any reporting entity's interest in an investment structure, as long as the reporting entity and the investment structure meet all of the following conditions:

- The investment structure is subject to Accounting Standards Codification 946 (also referred to as the "investment company guide");
- The reporting entity does not have an obligation to fund losses of the investment structure that could potentially be significant to the investment structure (this condition should be evaluated considering any implicit or explicit guarantees by the reporting entity); and
- The reporting entity does not have an interest in the investment structure that absorbs a disproportionate share of the investment structure's losses.

Examples of investment structures that may meet these conditions include, but are not limited to, mutual funds, hedge funds, private equity funds and venture capital funds. FASB made clear its intention that securitizations, asset-backed financings, collateralized debt obligations, and qualifying special purpose entities are unlikely to qualify for deferral. Deferring the effective date of FAS 167 for investment structures that meet the above criteria will enable FASB to resolve issues about how to distinguish between a principal and agent relationship jointly and consistently with the IASB.

Guidance Amendments

FASB proposed amending guidance in condition (c) of paragraph B22 to clarify that a qualitative analysis similar to that required in paragraph 14A(b) was FASB's intent when considering other variable interests of a decision-maker in a variable interest entity and the variability associated with the other variable interest under condition

(c) of paragraph B22 - similar to the threshold used when determining the primary beneficiary of a variable interest entity. In addition, the guidance clarifies that related parties should be considered in applying the criteria in paragraph B22, and not only paragraph B22(c), as previously interpreted.

FASB directed the staff to proceed to a draft of an Exposure Draft of a proposed Accounting Standards Update for vote by written ballot accompanied by a 30-day public comment period.

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