

Hot Topic

Update on major accounting
and auditing activities

FASB proposes to defer Statement 167 for asset management funds

Contents

Overview	1
Additional discussion	2
Proposed scope deferral - asset management funds	2
Proposed scope deferral - money market mutual funds	2
Disclosure requirements	2

Overview

On 11 November 2009, the FASB discussed its project to address concerns with the application of Statement 167¹ to reporting enterprises in the asset management industry. As written, Statement 167 may result in asset managers consolidating many hedge funds, private equity funds and other investment funds that they manage. Some financial statement preparers and users have indicated that consolidation of funds by asset managers will result in less meaningful financial statements. Statement 167 is effective for enterprises in fiscal years beginning after 15 November 2009.

At the 11 November meeting, the FASB voted to expose for comment an amendment that would defer the application of Statement 167 for a limited number of entities (principally mutual funds, private equity funds and hedge funds) until the completion of the joint FASB/IASB project

on consolidation accounting. The FASB intends for the deferral to apply only in instances in which certain conditions are met, as discussed in more detail below.

Additionally, the FASB voted to amend Statement 167 to defer its effective date for money market mutual funds (MMMFs).

Lastly, the FASB voted to amend certain of Statement 167's provisions for assessing whether fees paid to a decision maker or service provider are variable interests. These amendments would apply to entities that would not be subject to the proposed deferral.

The FASB plans to issue an exposure draft in late November with a 30-day comment period. The FASB anticipates that it will redeliberate the exposure draft in late December with final amendments to be issued in early January 2010. We encourage readers to monitor developments in this area closely.

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¹ FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*

Additional discussion

Proposed scope deferral – asset management funds

Based on the FASB's deliberations, it appears that the proposed deferral will only be effective for entities for which all of the following conditions apply:

- ▶ The entity has all of the attributes specified in ASC 946-10-15-2² or, if one or more of the attributes specified in that paragraph are not present, it is industry practice for the entity to issue financial statements applying measurement principles consistent with ASC 946.
- ▶ The reporting enterprise does not have an obligation to fund losses of the entity that could potentially be significant to the entity. This condition should be evaluated considering any implicit or explicit guarantees held by the reporting enterprise.
- ▶ The reporting enterprise does not have an interest in the entity that absorbs a disproportionate share of the entity's actual losses compared to other investors.

It does not appear that the magnitude of a reporting enterprise's investment in an entity will be an element of consideration in the application of the proposed deferral.

Based on today's deliberations, the FASB intends for the proposed scope deferral to apply to entities such as mutual funds, alternative investments funds (e.g., hedge funds, private equity funds and venture capital funds) and certain mortgage real estate investment trusts (REITs). The FASB does not intend for the proposed scope deferral to apply to entities such as securitization structures, asset-backed financing structures, entities formerly considered qualified special purpose entities (QSPEs), collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs).

The FASB is proposing to defer the application of Statement 167 for asset management funds until the completion of the joint FASB/IASB project on consolidation accounting. The FASB and IASB plan to develop consistent guidance for determining whether a decision maker is acting as a principal or an agent in a transaction, which is particularly relevant for asset managers. The joint project is expected to be completed in 2010.

Entities that would be subject to the scope deferral would be required to be evaluated for consolidation under FIN 46(R)³ or EITF 04-5,⁴ which are currently incorporated into ASC 810.⁵

Proposed scope deferral – money market mutual funds

Given certain implementation issues with the application of Statement 167 to MMMFs, the FASB also proposed to defer the application of Statement 167 to MMMFs. It appears that the proposed scope deferral for MMMFs will apply regardless of the asset manager's involvement with the MMMFs. That is, a manager of an MMMF would be able to defer the application of Statement 167 to MMMFs regardless of whether the aforementioned eligibility criteria have been met. This proposed deferral also would be revisited as part of the joint FASB/IASB project.

Disclosure requirements

The FASB discussed proposing a requirement to disclose assets under management for entities that are not required to be consolidated. The FASB agreed to revisit additional disclosure requirements as part of the joint project and is not proposing to amend Statement 167's disclosure provisions at this time.

² FASB ASC Topic 946, *Financial Services – Investment Companies*

³ FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*

⁴ 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"

⁵ FASB ASC Topic 810, *Consolidation*

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