

Up to “SPE–ED”

The FASB’s Consolidation Proposal at a Glance

<i>Situation</i>	<i>Who Doesn’t Consolidate?</i>	<i>Who Consolidates?</i>
FAS 140 QSPEs - Holds only passive financial assets transferred to it, is subject to limitations on its activities and derivatives, including restrictions on most asset sales.	Transferors to QSPEs do not consolidate them as per FAS 140.	Non-transferor participants evaluate for consolidation under FSPE guidance (usually) or SPE guidance.
Financial SPEs - Same as QSPEs but FSPEs generally can’t hold equity securities and FSPEs can follow their established powers to buy, originate and sell their assets. Answer these 3 questions: 1. Do I have significant discretion to purchase and sell assets? 2. Do I provide liquidity, credit or other asset support? 3. Do I earn fees that are not market based?	Any participant who is not a Primary Beneficiary because they answer “no” to at least 2 of the 3 questions.	The Primary Beneficiary, who answers “yes” to at least 2 of the 3 questions. If multiple entities answer yes to 2 questions, the Primary Beneficiary holds the most variable interest.
Voting Interest SPE - Meets all 5 of: 1. Nominal equity owners decide matters that are not predetermined; they “manage” the SPE. 2. Equity investment sufficient (10% presumption) to run & finance SPE without support from other variable interest holders. 3. Equity is always 1 st loss, unguaranteed, subordinated & no upside cap. 4. Equity was not bought with subordinated interests in another SPE. 5. The equity investment was not paid for through fees, a donation, or financed by another variable interest holder.	Under ARB 51 - Anyone not holding a controlling voting interest.	Under ARB 51 - Any equity holder with a controlling voting interest
SPEs consolidated elsewhere – SPEs and similar groups of assets and liabilities consolidated by Substantive Operating Entities	SPE participants other than the substantive parent.	The substantive parent.
All other SPEs – Primary Beneficiary, if one exists, holds: ○ A majority of all variable interests, or ○ The largest minority of variable interests that is both a significant part of the total and significantly larger than the second largest holder.	Participants other than the Primary Beneficiary.	The Primary Beneficiary.

- Notes** – A participant evaluates a silo as a separate SPE if it’s rights & obligations are restricted to specifically identified assets.
 – A participant evaluates interests of related parties, *de facto* agents, donees, controlled SPEs and other wards as its own.
 – Apply to new SPEs immediately upon release of final rules. Convert pre-existing SPEs with a catch-up adjustment for Q2 ’03.

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