Interpretation of the Emerging Accounting Issues Working Group

INT 00-11: EITF 98-15: Structured Notes Acquired for a Specified Investment Strategy

ISSUE NULLIFIED BY SSAP NO. 43R

INT 00-11 Dates Discussed

March 13, 2000; June 12, 2000; September 11, 2000; August 31, 2012

INT 00-11 References

SSAP No. 43R—Loan-Backed and Structured Securities (SSAP No. 43R)
SSAP No. 45—Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements (SSAP No. 45)
SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 91R)
SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-Backed and Structured Securities (SSAP No. 98)

INT 00-11 Issue

1. For the purpose of achieving a certain strategic investment result for the investor, structured note securities have been issued in combination with other structured note securities as a unit or a pair. One strategy involves the purchase of two structured notes with opposite interest rate reset provisions. Under that strategy, the fixed coupon rate or maturity date for each structured note would be determined shortly after issuance depending on movements in market interest rates. Following that reset date, the resulting yields on each of the structured note securities will move in opposite directions; however, the average yield of the two securities will generally reflect the market yield of the combined instruments in effect on the issuance date.

2. The issue is whether the investor should account for the two structured note securities together as a unit or account for each security separately.

INT 00-11 Discussion

3. The working group reached a consensus to reject the consensus positions reached in *EITF 98-15, Structured Notes Acquired for a Specified Investment Strategy* (EITF 98-15) based upon a recommendation from the Invested Assets Working Group (IAWG). The IAWG reported that for EITF 98-15, the IAWG observed that the current statutory accounting framework requires the majority of bonds to be valued at amortized cost and not fair value. In such a framework, IAWG believes that EITF 98-15 is simply not necessary. The IAWG also expressed concern that EITF 98-15 would require the Securities Valuation Office (SVO) to engage in activities that are beyond its current scope and expertise. Any attempt on the part of the Emerging Accounting Issues Working Group to promulgate EITF 98-15 into accounting guidance will require the VOSTF to change the mission of the SVO.

INT 00-11 Status

4. In 2009, *FAS 166, Accounting for Transfers of Financial Assets, an Amendment of FAS 140*, was issued. In addition to amending FAS 140, it also amended FASB EITF 98-15 to clarify

that paragraph 11 (Accounting for Transfers of an Entire Financial Asset or Group of Entire Financial Assets) of FAS 166 should be applied to each structured note upon transfer. This revision to EITF 98-15 does not impact the previous conclusion to reject this EITF for statutory accounting.

45. No further discussion is planned.

