



Centri's Focus On: FASB

FASB Proposes Accounting Standards Update Consolidation (ASC 810)

Targeted Improvements to Related Party Guidance for VIEs

Details

On June 22, 2017, the FASB proposed Accounting Standards Update to Consolidation (ASC 810): *Targeted Improvements to Related Party Guidance for Variable Interest Entities* to reduce the cost and complexity and to improve financial reporting associated with consolidation of variable interest entities.

Overview

The guidance was updated in response to stakeholders' comments around ASC 810, Consolidation. The proposed update would affect all reporting entities that currently consolidate an entity under ASC 810, including private companies. The proposed guidance addresses the following:

- private company concerns around the application of existing guidance to VIE common control arrangements,
- determining whether decision-making fees paid by a VIE are variable interests,
- application of requirements to situations in which power is shared among related parties.

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Proposed Modifications

Private Company Accounting Policy Election

The proposed update is applicable to companies in which the parent of the commonly controlled group and the legal entities being evaluated for consolidation are not public entities. If the entities are private, the company may choose to forgo the existing guidance relating to common control of variable interest entities and elect an accounting policy that would be applied to all current and future legal entities under common control arrangements. However, the private reporting entity will still be required to follow other relevant consolidation guidance, specifically the voting interest entity guidance, unless an exception to the scope exists. In addition, the private company will be required to provide detailed disclosures about its involvement with and exposure to the legal entity under common control.

Decision-Making Fees

Indirect interests held through related parties would now be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The application is now consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE.

Related Party Consolidation

The proposed guidance would eliminate the mandate for related parties to consolidate for situations in which power is shared amongst related parties or when a group of related parties or have the characteristics of a controlling financial interest, but no individual reporting entity has a controlling financial interest. Instead, when a reporting entity within the related party group under common control or in a related party shared power situation concludes that substantially all of the activities of the VIE do not involve and are not performed on behalf of any single entity in the related party group, then the reporting entity would consider whether it has a controlling financial interest in the VIE. In doing so, the reporting entity would determine whether it should attribute decision making to itself by considering certain factors, as prescribed in the proposed update. However, unless a scope exception exists, the parent company of the commonly controlled group would consolidate the VIE if it is determined that the related parties under common control, as a group, have a controlling financial interest.

Effective Date and Transition

Stakeholders wishing to review and provide comments on the proposed ASU will need to do so prior to September 5, 2017. The effective date of the proposed ASU will be determined based on feedback received from such stakeholders. Entities that have yet to adopt ASU 2015-02 would be required to apply ASU 2015-02 and the new guidance simultaneously. An entity that has already adopted the amendments in ASU 2015-02 would be required to apply the amendments in this proposed update retrospectively to all relevant prior periods beginning in the fiscal year in which the amendments in ASU 2015-02 were initially applied.

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