

In brief

The latest news in financial reporting



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At a glance

A new FASB proposal will change how a common control party's involvement in a VIE is considered when performing a consolidation assessment.

FASB proposal would amend related party consolidation guidance for VIEs

What happened?

On June 22, 2017, the FASB issued proposed guidance¹ that amends how a reporting entity should consider certain common control relationships in its consolidation assessment of a variable interest entity (VIE). Proposed changes include:

- If certain conditions are met, a private company may choose not to apply the VIE consolidation guidance to entities under common control. Electing this accounting policy would require the reporting entity to provide additional disclosures about its involvement with and exposure to each common control party.
- When determining whether fees paid by a VIE are variable interests, indirect interests in the VIE held by a decision maker or service provider through common control parties would be considered on a proportionate basis.
- The common-control party “tie breaker” will no longer mandate that one of the parties to a VIE consolidate it. However, barring a scope exception, the parent company of the common-control entities would consolidate the VIE.

Why is this important?

Compared to current guidance, the proposal may lead to different consolidation conclusions when entities under common control are involved with a VIE. VIE consolidation judgments at the standalone, intermediate-tier (subsidiary) level that are more consistent with the concept of control may result when the modified “tie-breaker” assessment is considered. In addition, under the proposed policy election, private companies may find relief from time-consuming VIE consolidation analyses.

What's next?

Amendments in ASU 2015-2² to ASC 810 were effective for calendar year-end public entities in 2016. All others were given an additional year. The proposed guidance would need to be applied retrospectively beginning with the fiscal year in which the ASU was first applied. Reporting entities that have yet to adopt ASU 2015-02 would be required to apply the new guidance and the ASU at the same time.

The effective date will be determined based on feedback from stakeholders. Early adoption will be allowed. Comments are due by September 5, 2017.

¹Proposed Accounting Standards Update, *Consolidation (Topic 810) - Targeted Improvements to Related Party Guidance for Variable Interest Entities*

²ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*

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