

**Public Roundtable Meeting  
Consolidation Reorganization and Targeted Improvements  
December 16, 2016  
9:00 a.m.–12:00 p.m.**

**Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut**

**AGENDA**

**Welcome and Introductions**

We have arranged this roundtable meeting to listen to your views and to further develop our understanding of the practice issues that occur when applying the consolidation guidance.

**Issue 1:** Reorganization and Simplification

- a) Reorganization of Topic 810 (Consolidations)
- b) Specific Areas for Potential Simplification

**Issue 2:** Private Companies – Applying VIE Guidance to Entities Under Common Control

*Break*

**Issue 3:** Public Business Entities – Targeted Improvements to Common Control Arrangements

- a) Related Party Tie-Breaker Test
- b) Substantially All Guidance
- c) Fees Paid to Decision Makers Guidance

Other Comments/Observations

## Issue 1: Reorganization and Simplification

### ***Reorganization of Topic 810 (Consolidations)***

1. At the February 3, 2016 Board meeting, the Board discussed whether financial reporting issues related to consolidation guidance should be included in the Board's Agenda Consultation – Invitation to Comment (ITC). As discussed at that meeting, respondents to the 2015 FASAC survey indicated that consolidation guidance, particularly the variable interest entity (VIE) guidance, is difficult to understand and apply. Also, some suggested rewriting the guidance in "Plain English" to simplify it and make it easier to comprehend. At that meeting, the Board decided not to add the topic of consolidation to the ITC and, instead, decided to add a separate research project to its agenda. The Board asked the staff to research whether:
  - a. Reorganizing Topic 810 would make the Topic easier to navigate and understand
  - b. Simplifying any specific areas of the guidance (for example, terms and concepts) could make the guidance easier to understand and apply without significantly affecting outcomes reached under the guidance as currently written.
2. Based on outreach the FASB staff conducted, the Board decided at the November 2, 2016 Board meeting that Topic 810 should be reorganized into a new Topic, Topic 812. The Board also decided that Topic 812 would have separate Subtopics for VIEs and voting interest entities (VOEs). The attached Staff Draft reflects the updates discussed above.
3. Additionally, stakeholders with whom the staff performed outreach were unaware of whether the "Consolidation of Entities Controlled by Contract" guidance is still being applied in practice. The staff also learned through outreach that practitioners may not be applying the requirements in Subtopic 810-30, Consolidation—Research and Development Arrangements. Based on the feedback received by the staff during outreach, the guidance for these two areas has been superseded in the attached Staff Draft. The Board plans to ask a question in an Exposure Draft about whether stakeholders are still applying the guidance in these two areas, and if so, to which situations the guidance is being applied.
4. Note that the staff revised the wording of paragraph 812-20-25-28 in addition to the changes proposed in the *Specific Areas for Potential Simplification* section of Issue 1, Issue 2, and Issue 3. The revisions did not alter the content or intent of the paragraph, but rather removed the double negative references throughout for determining whether an entity is a VIE.
5. Within the attached Staff Draft, the primary guidance that was reorganized is within the proposed Topic 812. However, the implementation guidance that is within Sections 812-20-55 and 812-30-55 is largely unchanged except for paragraphs 812-20-55-17 through 812-20-55-37.

#### **Questions**

**Q1. Should the consolidation guidance in Topic 810 be reorganized into a new Topic, Topic 812?**

**Questions**

- Q2. Should the guidance for VIEs and VOEs be provided in separate Subtopics as proposed in the attached Staff Draft?**
- Q3. Are you aware of any stakeholders that utilize the “Consolidation of Entities Controlled by Contract” or “Consolidation—Research and Development Arrangements” guidance? If so, please elaborate on situations in which this guidance is still utilized.**
- Q4. Do you have any further comments or observations that you would like to share with the Board and staff regarding the reorganization of Topic 810?**

***Specific Areas for Potential Simplification***

6. At the November 2, 2016 Board meeting, the Board decided to make certain clarifications to the consolidation guidance. The Board acknowledged feedback from practitioners with whom the staff performed outreach that indicated that any change in language to terms or concepts could result in a change in practice. The Board directed the staff to provide clarifying language for the following two topics.

*Power through a Variable Interest in a VIE*

7. The Board decided it should be made more clear that for purposes of determining the primary beneficiary of a VIE, “the power to direct the activities that most significantly impact the VIE’s economic performance” must be a result of the reporting entity holding a variable interest in the VIE. Outreach participants agreed that this requirement could be made more explicit.

*“Expected”*

8. *Expected losses, expected residual returns, and expected variability* are defined terms that have been carried forward since the issuance of FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*. These terms are referenced in several areas of Topic 810 and were historically associated with quantitative analyses. However, the staff notes that the Board intentionally moved away from quantitative analyses when it issued both Statement of Financial Accounting Standards No. 167: *Amendments to FASB Interpretation No. 46(R)*, and Accounting Standards Update No. 2010-10—*Consolidation (Topic 810): Amendments for Certain Investment Funds*. Stakeholders also have asserted that they typically do not perform quantitative analyses when assessing areas that require consideration of *expected*. Rather, they expressed that they almost always perform a qualitative assessment. Based on this feedback, the Board decided that references to *expected* should emphasize that the determination of *expected losses, expected residual returns, and expected variability* should be qualitative and may be supported by quantitative analysis.

9. The attached Staff Draft reflects the updates discussed above in the glossary in Section 812-10-20, as well as in paragraphs 812-20-25-4, 812-20-25-12, 812-20-25-29, 812-20-25-35 through 25-36, and 812-20-55-71.

#### Questions

- Q5. Should the Board clarify that power over a VIE comes through a variable interest in that VIE?**
- Q6. Should the Board clarify that the evaluation of *expected losses*, *expected residual returns*, and *expected variability* should be qualitative and may be supported with quantitative analysis?**
- Q7. Do you have any further comments or observations that you would like to share with the Board and staff in regards to the clarifications?**

#### Issue 2: Private Companies – Applying VIE Guidance to Entities Under Common Control

10. Applying the VIE consolidation guidance to entities under common control is a legacy issue that has been continuously stressed by several Private Company Council (PCC) members. Specifically, these members asserted that VIE guidance within Topic 810 is overly complex and difficult to apply, particularly to private companies under common control. The FASB staff confirmed through significant outreach with various private company stakeholders that diversity in the application of consolidation guidance for common control arrangements was pervasive, and that much of this diversity is a result of the frequent lack of formality in these types of private company arrangements. Stakeholders told the staff that this lack of formality contributed to the difficulty in determining which entity under common control is the primary beneficiary of a VIE.
11. Because of the difficulty encountered by private company stakeholders in applying VIE guidance to private companies under common control, the Board is considering a proposal for an optional scope exception that would exempt private companies under common control from applying the VIE guidance.
12. The overriding principle of this proposal is that the parent company of the entities under common control always would consolidate the private companies under common control (to the extent that the parent company has a controlling financial interest in the commonly controlled entity). The reporting entity under common control that has an interest in the other entity still would be required to apply other generally accepted accounting principles (GAAP) (most often the voting interest model) in Topic 812 for consolidation. Additionally, the guidance would require disclosures that would allow users to better understand the common control relationship between the reporting entity and the other entity. The attached Staff Draft reflects these changes to the guidance in paragraphs 812-20-15-9 through 15-11, 812-20-50-9 through 50-11, and 812-20-55-35 through 55-37.
13. Appendix A provides an example of a private company common control arrangement to facilitate discussion of the issues outlined above.

**Questions**

**Q8. Should the Board provide a scope exception from VIE guidance for private companies under common control or should a different alternative be pursued?**

**Q9. As drafted, the scope exception is limited only to arrangements in which all entities under consideration are private companies. For example, if a brother-sister entity under common control meets the definition of a public business entity, the reporting entity would be precluded from applying the scope exception. Do you agree with that scope?**

**Q10. Should the scope exception be extended to all common control arrangements? In other words, should public business entities also be excluded from the scope of VIE guidance for arrangements under common control?**

**Q11. Do you agree with the proposed disclosures when reporting entities are excluded from the scope of applying VIE guidance? If not, what amendments would you propose?**

**Q12. If you believe that the Board should provide a scope exception, should this scope exception be required or optional? Please elaborate on your preference.**

***Note that based on the preceding questions, the following outcomes could occur:***

<b>Alternative</b>	<b>Overall Common Control Scope Exception</b>	<b>Leases Common Control Scope Exception</b>
<b>A</b>	Optional, Private only	Optional No change.
<b>B</b>	Required, Private only	Optional Only available if organizational structure contains a public business entity. If organizational structure is all private, all entities <i>must</i> apply scope exception.
<b>C</b>	Optional, Public and Private	Optional No change.
<b>D</b>	Required, Public and Private	Effectively Removed No entity, private or public, will have an option to apply a scope exception to common control scenarios; all common control scenarios excluded from the scope of the VIE guidance.

### **Issue 3: Public Business Entities – Targeted Improvements to VIE Common Control Arrangements**

14. A consideration of targeted improvements to common control arrangements subject to VIE guidance resulted from comment letters received during deliberations leading to the issuance of Accounting Standards Update No. 2016-17—*Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*, in addition to other outreach. This issue was researched in conjunction with Issue 2 relating to private companies. In comment letters received, respondents asserted that Update 2016-17 appropriately addressed the evaluation of indirect interests in a VIE held through a related party under common control in the context of the primary beneficiary analysis.
15. However, many respondents noted that the Update failed to address the same evaluation in the context of the determination of whether a decision-making fee is a variable interest in paragraph 810-10-55-37D. Additionally, respondents noted other points of complexity and diversity in practice related to evaluating consolidation for related parties under common control, specifically regarding the related party tie-breaker test in paragraph 810-10-25-44. Respondents asserted that this complexity and diversity was due to a lack of clarity regarding whether power, economics, or other factors should be weighed more heavily when performing the tie-breaker test. In addition, respondents struggled to determine the consolidation principle that the Board is trying to achieve for common control arrangements.

#### *Related Party Tie-Breaker Test and Substantially All Guidance*

16. To address these issues, the staff has proposed a principle that would clarify that if the parent of the common control group has a controlling financial interest in the VIE on a consolidated basis, that parent is required to consolidate the VIE and, with the new proportional guidance for indirect variable interests, a commonly controlled entity should evaluate its power and economics on a standalone basis for its own financial reporting. This principle aligns with the principle in Issue 2 related to private companies.
17. As a result of the principle outlined in paragraph 16, the staff is proposing to remove the related party tie-breaker test (paragraphs 810-10-25-44 through 25-44A), thereby eliminating any diversity in practice regarding how the tie-breaker test is applied. Instead of requiring one entity under common control to consolidate a VIE, an entity would be required to consolidate a VIE only if it has a controlling financial interest in that VIE, based on its legal rights and obligations that give it power and exposure to significant economics. The staff's proposal is a natural extension of the proportional guidance for indirect variable interests under Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The staff notes that it is possible under this alternative that no related party under common control would have to consolidate a VIE; however, the parent of the commonly controlled entities would still be subject to the consolidation guidance.
18. Related parties under common control also would be required to evaluate (under an expansion of paragraph 810-10-25-44B) whether “substantially all” of the activities of a VIE either involve or are conducted on behalf of a single entity; if so, that single entity

would be required to consolidate the VIE. This would prevent a parent entity from separating power and significant economics over a VIE among entities under common control, for the sole purpose of avoiding consolidation when substantially all activities of the VIE benefit one entity.

19. The staff notes that while this proposal could eliminate diversity in practice and complexity regarding how the related party tie-breaker is applied, some stakeholders and Board members are concerned that without the related party tie-breaker test, some public business entities may use the proposed amendments as a method by which to structure transactions to avoid consolidation at the level of the commonly controlled entities. These stakeholders also believe consolidation should be required by one of the commonly controlled entities if, as a group, they share the characteristics of a controlling financial interest. Some stakeholders also believe that judgment in the application of the related party tie-breaker test is appropriate, and the diversity in practice resulting from this judgment is a natural and acceptable outcome.

*Fees Paid to Decision-Makers Guidance*

20. Additionally, the Board is considering aligning the evaluation of indirect interests in a VIE held through a related party under common control in the context of the evaluation of a decision-making fee (paragraph 810-10-55-37D) with the guidance in the context of the primary beneficiary test (paragraph 810-10-25-42). That is, in both the primary beneficiary test and fee analysis, a reporting entity that holds an indirect interest in a VIE through a related party under common control would evaluate that interest on a proportional basis. Under current guidance, a decision maker is required to consider an indirect interest in a VIE held through a related party under common control to be the equivalent of a direct interest in its entirety, for purposes of evaluating whether a decision-making fee is a variable interest. This results in more fees paid to decision makers, that are acting as agents, being considered variable interests. Aligning the guidance for the primary beneficiary test and the fee analysis would eliminate redundant disclosures that result under this guidance.
21. Additionally, a result of more decision-making fees being considered variable interests under current guidance is that a decision maker acting as an agent of a VIE is sometimes required to navigate the VIE guidance to conclude that it is not required to consolidate a VIE. The proposal outlined above would reduce complexity by decreasing the number of decision-making fees that are considered variable interests, thereby reducing the number of decision makers acting as agents that are required to navigate the VIE guidance.
22. The attached Staff Draft reflects proposed changes to the consolidation guidance for the issues noted above in paragraphs 812-20-25-45 through 812-20-25-47 and 812-20-25-21.
23. Appendix B provides an example of a public company common control arrangement to facilitate discussion of the issues outlined above.

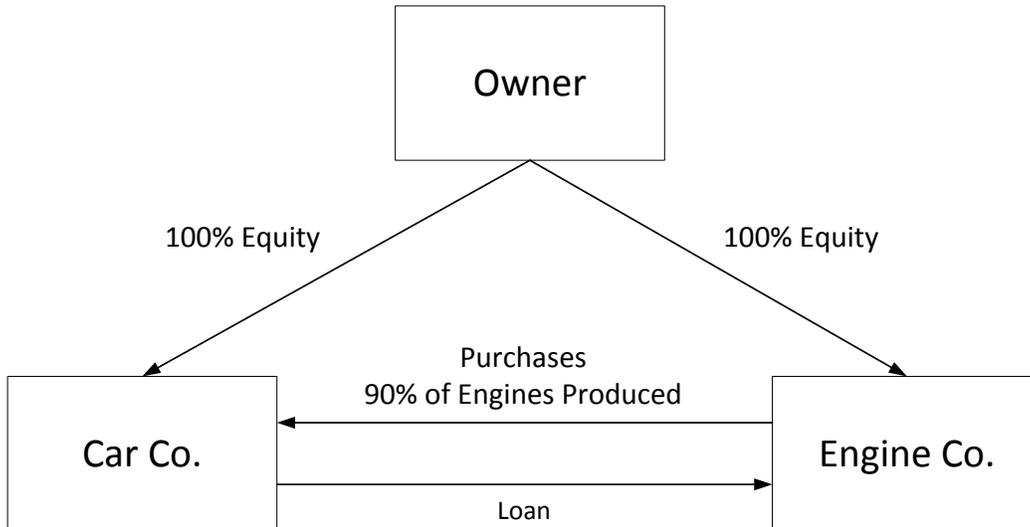
**Questions**

**Q13. Are there issues in practice regarding application of the related party tie-breaker test that warrant amending the current guidance?**

**Questions**

- Q14. Do you prefer guidance that results in consolidation of a VIE by a commonly controlled entity that by itself is not the primary beneficiary or should commonly controlled entities evaluate their own rights and economic exposure on a standalone basis?**
- Q15. Should the Board eliminate the related party tie-breaker test? If yes, should the “substantially all” guidance be applied to all related parties (paragraph 812-20-25-46)?**
- Q16. Should the guidance in the fee analysis be aligned with the guidance in the primary beneficiary test (that is, extending the proportional guidance for indirect variable interests to the fee analysis)?**
- Q17. Would the amendments to the guidance proposed under this Issue resolve the issues posed in Issue 2 related to private company common control arrangements?**
- Q18. Do you have any additional comments or observations to share with the Board and staff regarding the guidance for VIE common control arrangements?**

**Appendix A**

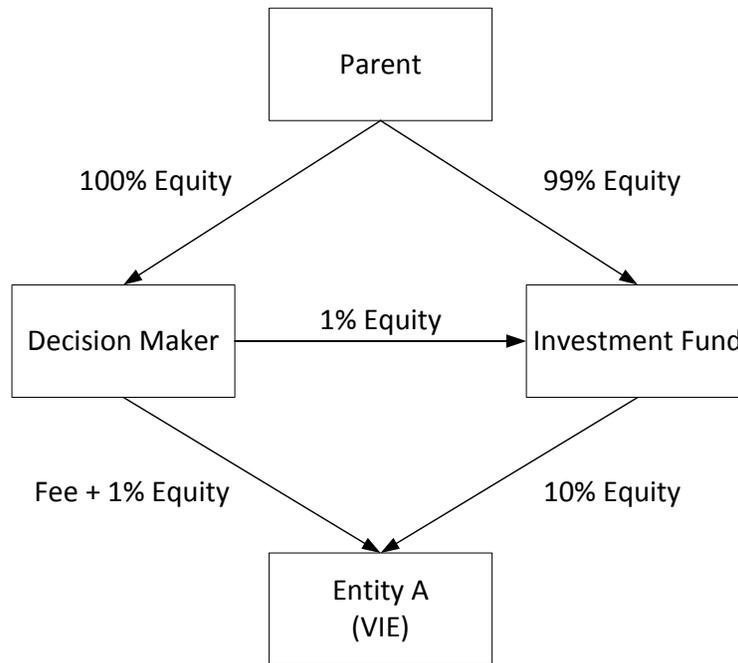


- Engine Co. has insufficient equity (Equity = 5% of funding):
  - Industry standard for sufficient equity is 20%.
- Loan to Engine Co. represents 15% of funding.
- Engine Co. financed remaining 80% with Bank ABC.
- Car Co. makes significant decisions such as exact specifications of engines.
- Assume arms-length pricing between Car Co. and Engine Co., but no contractual arrangement.

Observation: The complexity of applying Topic 810 to this arrangement arises due to:

- a. Determining whether Engine Co. is a VIE when considering the common control arrangement holistically
- b. If Engine Co. is a VIE, determining whether Car Co. or the Owner has the power over Engine Co.

**Appendix B**



- Decision Maker and Investment Fund are under common control of Parent.
- Decision Maker receives an at-market and commensurate fee from Entity A.
- Entity A is funded 10% by Investment Fund, 1% by Decision Maker, and 89% by several third parties.
- Investment Fund and third parties do not have substantive participating or kick-out rights.
- Assume Entity A is a VIE.

Observation: The complexity of applying Topic 810 to this arrangement arises from interpreting and applying the related party tie-breaker and considering the underlying criteria.

## Consolidations Roundtable

December 16, 2016  
9:00 a.m.–12:00 p.m.

Financial Accounting Standards Board  
401 Merritt 7, Ste 5  
Norwalk, CT

### Participant List

#### Stakeholder Participants

John Bishop	PricewaterhouseCoopers LLP
Steve Brown	U.S. Bank
Brandon Coleman	Deloitte LLP
Tim Curt	Warburg Pincus LLC
Marty Davidson	TPG Global LLC
Christopher Gill	General Electric
Gautam Goswami	BDO USA LLP
Joseph McGrath	Ernst & Young LLP
Harold Monk	Carr, Riggs & Ingram
Rick Petersen	Financial Reporting Advisors
Mark Scoles	Grant Thornton LLP
Marina Stewart	JP Morgan
Angie Storm	KPMG LLP
Jeff Watson	Technical Issues Committee
Brent Woodford (via phone)	The Walt Disney Company

#### FASB Board and Staff Participants

Russell Golden	Board Chairman
Jim Kroeker	Board Vice Chairman
Christine Botosan	Board Member
Daryl Buck	Board Member
Hal Schroeder	Board Member
Marc Siegel	Board Member
Larry Smith	Board Member
Sue Cospers	Technical Director
Matt Esposito	Assistant Director
Michael Cheng	Supervising Project Manager
Chris Roberge	Senior Project Manager
Chandy Smith	Senior Investor Liaison
Seth Drucker	Practice Fellow
Seth Collie	Postgraduate Technical Assistant

#### Official Observer

Kevin Vaughn	U.S. Securities and Exchange Commission, Office of the Chief Accountant
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