MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members
From:	Consolidation Team
Subject:	Minutes of December 16, 2016 Roundtable **Date:** January 14, 2019
cc:	Stacey Sutay

The roundtable meeting minutes are provided for the information and convenience of constituents who want to follow the standard-setting process; these minutes do not represent official positions of the FASB. Official positions of the FASB are reached only after extensive due process and deliberations.

Consolidation (Topic 810) Topics Discussed:

Topic 1: Reorganization and Simplification

Topic 2: Private Companies—Applying VIE Guidance to Entities under Common Control

Topic 3: Public Business Entities—Targeted Improvements to Common Control Arrangements

Basis for Discussion: To solicit feedback on the staff's proposals and to address the Topics for discussion.

Length of Discussion: 9:00 a.m. to 12:00 p.m. EST

Attendance:

External Participants

John Bishop	PricewaterhouseCoopers LLP
Adam Brown	BDO USA LLP
Brandon Coleman	Deloitte & Touche LLP
Joseph McGrath	Ernst & Young LLP
Angie Storm	KPMG LLC
Mark Scoles	Grant Thornton LLP
Harold Monk Jr.	Carr, Riggs and Ingram
Kevin Vaughn	U.S. Securities and Exchange Commission
Rick Petersen	Financial Reporting Advisors
Christopher Gill	General Electric
Marina Stewart	JP Morgan Chase

Marty Davidson	TPG Global
Brent Woodford	Disney
Tim Curt	Warburg Pincus
Jeffrey Watson	Miller, Cooper & Co. Ltd.
Steve Brown	U.S. Bank

FASB Participants

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

<u>Topic 1: Reorganization and Simplification</u>

1. The Board discussed with external participants a proposed reorganization of the consolidation guidance (which was provided to the external participants before the roundtable) and the clarification of the certain items in Topic 810.

2. Eight external participants supported the proposal to reorganize Topic 810 into a new Topic (812) with separate Subtopics for variable interest entities (VIE) and voting interest entities (VOE). They cited that the reorganization would make the guidance easier to navigate and understand.

3. One external participant expressed that the Board should develop a single consolidation model.

4. Seven external participants agreed that the "Controlled by Contract" guidance should be removed from the Consolidation Topic. Those participants stated that they were unaware of whether this guidance was still being used in practice but suspected that it may be used by not-for-profit entities (NFP), particularly NFP physician practice management entities.

5. The staff draft provided to roundtable participants included amendments to the concept of *expected* (definitions, determining variability and variable interests, sufficiency of equity, and other areas). All eight external participants commenting did not support the proposed changes. They emphasized that the current guidance affected by *expected* is understood and that the quantitative test (including inputs to a quantitative test of expected) is sometimes needed to reach conclusions.

<u>Topic 2: Private Companies—Applying VIE Guidance to Entities under Common Control</u>

6. Overall, feedback from the roundtable was mixed about whether a scope exception from applying VIE guidance should be permitted for private companies under common control.

7. Three large accounting firms did not support a private company scope exception. Those participants stated that there should be limited accounting recognition and measurement differences between public business entities and private companies because creating

differences between the two can cause complexity, especially for private companies that may look to become a public business entities in the future.

8. Additionally, those participants expressed concern that entities may structure arrangements to take advantage of the scope exception to prevent consolidation conclusions.

9. One accounting firm supported the scope exception and stated that the scope exception was appropriate because the cost of a determining whether an entity is a VIE does not justify the benefits to the users of private company financial statements.

10. All other external participants commenting supported a private company scope exception for entities under common control. They cited that the VIE guidance is difficult for private companies to apply.

11. They also mentioned that the current guidance is not applied consistently across entities, and the proposed disclosures would decrease diversity in practice while also providing users of financial statements with relevant and useful information.

Topic 3: Public Business Entities—Targeted Improvements to Common Control Arrangements

12. Broadly, almost all external participants providing feedback supported the proposed amendments to the "fees paid by decision makers guidance." Those proposed amendments would require indirect interests held by a decision maker to be considered on a proportional basis (and not in their entirety) when determining whether the decision maker's fee is a variable interest.

13. They agreed with the proposed change primarily because it aligns the guidance for these interests with that for determining the primary beneficiary of a VIE, asserting that it is inappropriate to think differently about how indirect interests are evaluated when determining whether the decision maker's fee is a variable interest as compared with the primary beneficiary determination.

14. Two large accounting firms supported removing the related party tie-breaker test and broadening the "substantially all" guidance (within the related-party guidance) as an anti-abuse provision. Those firms requested that the staff provide further clarity around factors to consider when evaluating whether a decision maker is acting on behalf of the non-decision maker (or investing entity) in a common control arrangement.

15. Two large accounting firms and one preparer participant did not support the removal of the related party tie-breaker test primarily because the current related party guidance results in appropriate consolidation conclusions and structuring opportunities may be more prominent if the guidance is removed.

16. Two other accounting firms said that they do not see the related party tie-breaker test applied often in public company arrangements.

17. Another preparer participant supported the removal of the related party tie-breaker test because he finds the guidance to be overly complicated and inoperable.