

FASB Votes to Finalize ASU on Amendments to Consolidation Guidance on Interests Held Through Related Parties Under Common Control

At its August 24, 2016, meeting, the FASB discussed feedback received on its [proposed Accounting Standards Update](#)¹ (ASU) on the consolidation requirements in a reporting entity's evaluation of interests held through related parties that are under common control. The Board reaffirmed the guidance in the proposed ASU and authorized the FASB staff to draft a final ASU.

Background

Under ASC 810,² the primary beneficiary of a variable interest entity (VIE) is the party that has both of the following characteristics: (1) the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Issued last year, [ASU 2015-02](#)³ amended the second of those two criteria (referred to as the "economics criterion") to require a reporting entity that is a single decision maker to consider interests held by its related parties (including de facto agents) only if the reporting entity has a direct interest in the related parties.⁴ If the related parties are not under common control, the reporting entity considers the indirect interests proportionately. However, if the related parties are under common control, the reporting entity includes their entire interest in its economics-criterion evaluation.

Scope

In response to the feedback received, the FASB discussed the scope of the proposed ASU and whether other issues should be included in the final ASU. The Board reaffirmed that the scope of the ASU would be limited to requiring that a single decision maker should consider indirect interests held by related parties under common control on a proportionate basis in a manner consistent with its evaluation of indirect interests held through other related parties. That is, the common-control relationship will no longer affect the evaluation of indirect interests in the economics-criterion assessment. The final ASU would not change the need for a single decision maker that has determined that it individually does not meet the conditions to be a primary beneficiary to then evaluate whether the related-party group meets the conditions to be a primary beneficiary and, if so, determine whether the single decision maker is the party most closely associated with the VIE in the related-party group.

The Board decided not to amend the guidance in the proposed ASU on determining whether fees paid to a decision maker or service provider represent a variable interest in the evaluation of a decision maker's indirect interests held through related parties under common control. ASU 2015-02 amended the guidance on a decision maker's consideration of related-party relationships in the decision maker's evaluation of whether it holds other interests in the VIE that individually, or in the

¹ FASB Proposed Accounting Standards Update *Interests Held Through Related Parties That Are Under Common Control*.

² FASB Accounting Standards Codification Topic 810, *Consolidation*.

³ FASB Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*.

⁴ This guidance only applies to a reporting entity that is a single decision maker.

aggregate, would absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns.⁵ The ASU will retain that guidance.

The Board will consider clarifying other aspects of the guidance on common-control relationships for VIEs as part of a separate initiative. Consequently, the final ASU would only affect the decision maker's consideration of indirect interests held through related parties under common control in the primary-beneficiary assessment.

Transition

The Board decided that entities that have already adopted the amendments in ASU 2015-02 would be required to apply the amendments retrospectively to all relevant prior periods, beginning with the annual period in which the amendments in ASU 2015-02 were initially adopted. This decision eliminated the option included in the proposed ASU for entities to elect a modified retrospective approach. Entities that have not yet adopted the amendments in ASU 2015-02 would apply the same transition method elected for the application of ASU 2015-02.

The Board decided to retain the transition disclosure requirements outlined in the proposed ASU.

Effective Date, Early Adoption, and Expected Issuance of the ASU

The final ASU will be effective for public business entities for annual periods beginning on or after December 15, 2016, including interim and annual periods. For other entities, the amendments will be effective for annual periods beginning after December 15, 2016, and interim periods in annual periods beginning after December 15, 2017. Entities that have not yet adopted ASU 2015-02 will be required to adopt the amendments in the final ASU at the same time they adopt the amendments in ASU 2015-02.

The Board decided that all entities would be allowed to early adopt the amendments as of the date of issuance of the final ASU, including adoption in an interim period.

The final ASU is expected to be issued by the end of 2016.

⁵ Paragraphs 810-10-55-37 through 55-37D of the proposed ASU address fees paid to decision makers or service providers in the evaluation of whether the fees are variable interests.

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