

Heads Up

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FASB Issues Proposed ASU on Alternative Consolidation Requirements for Private Companies

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On August 22, 2013, the FASB issued for public comment a [proposed ASU](#)¹ that would give private companies the option of not applying the variable interest entity (VIE) consolidation guidance to certain interests in lessor entities that are under common control. This alternative approach is intended to reduce the cost and complexity of financial reporting while continuing to provide decision-useful information to users of private-company financial statements. The proposal also eliminates portions of the VIE guidance applicable to all entities.

Background

Private companies often establish separate entities to hold assets, such as office buildings; real estate; and equipment for tax planning, estate planning, and limiting legal liability. As part of its outreach efforts, the Private Company Council (PCC) identified concerns related to accounting for interrelationships between private operating companies, the related entities that hold such assets, and the entities' owners in these situations. Specifically, the PCC identified a need to improve the guidance on determining whether, under the VIE guidance, private operating companies should consolidate the related parties that hold such assets.

Changes to Private-Company Consolidation Model Requirements for Lessor Entities Under Common Control

If finalized, the proposed ASU would give private companies the option of not applying the VIE guidance in ASC 810² if the arrangement meets all of the following conditions:

- a. The private company and the legal entity are under common control.
- b. The private company has a lease arrangement with the legal entity.
- c. Substantially all activities between the private company and the legal entity are related to the leasing activities (including supporting leasing activities) of the legal entity.

A private company that elects to apply the proposed accounting alternative would apply it to all of its leasing arrangements that meet these conditions. Accordingly, rather than applying the VIE consolidation guidance, such entities would only be required to apply the "voting interest model" in ASC 810 (formerly ARB 51³) to these arrangements. In

¹ FASB Proposed Accounting Standards Update, *Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements* — a proposal of the Private Company Council.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the FASB Accounting Standards Codification."

³ Accounting Research Bulletin No. 51, *Consolidated Financial Statements*.

The proposed ASU would remove Example 4 (ASC 810-10-55-87 through 55-89) from ASC 810-10.

addition, a private company that applies the proposed guidance would provide all of the following additional disclosures for all arrangements that meet the above conditions:

- a. The key terms of the leasing arrangements
- b. The amount of debt and/or significant liabilities of the lessor entity under common control
- c. The key terms of existing debt agreements of the lessor entity under common control (for example, amount of debt, interest rate, maturity, pledged collateral, and guarantees, [and so forth])
- d. The key terms of any other explicit interest [in] the lessor entity.

Superseded Application Guidance (Applies to All Entities)

The proposed ASU would remove Example 4 (ASC 810-10-55-87 through 55-89⁴) from ASC 810-10. This example illustrates how, in a lessor entity arrangement in which the lessor entity is under common control with the lessee, the lessee should evaluate whether it has an implicit variable interest in, and whether it is required to consolidate, the lessor entity. The FASB is proposing removal of this example because the FASB and PCC believe that it contradicts the proposed ASU and the Board thinks that it is rarely applied by public companies (and therefore will not significantly affect public-company accounting).

Editor's Note: Although the FASB indicated that removal of the example would not have a significant effect, it could affect public entities that have consulted this guidance to determine how to apply the implicit variable interest guidance in ASC 810-10-25-48 through 25-54. While the example would be eliminated, the requirements to apply the VIE guidance (and the implicit variable interest guidance) would still apply to public companies.

Effective Date and Transition

The effective date for the proposed requirements will be considered on the basis of the feedback received. The proposed ASU would be applied retrospectively, with an adjustment to the opening balances for the earliest period presented.

Next Steps

Comments on the proposed ASU are due by October 14, 2013. Once the FASB and PCC consider the feedback on the proposal, any changes will be subject to a final vote by the PCC before the final proposal is sent to the FASB for endorsement.

⁴ Formerly FASB Staff Position No. FIN 46(R)-5, "Implicit Variable Interests Under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*."

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