

**Board Meeting Handout
Consolidation: Principal Versus Agent Analysis
December 11, 2013**

Purpose of this Meeting

1. At the December 11, 2013 Board meeting, the staff will ask the Board if the factors included in the principal versus agent analysis from the proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis* (proposed Update), should be integrated into the existing guidance in Topic 810 for variable interest entities (VIEs) and voting interest entities (VOEs) rather than remain as separate factors to be separately analyzed. The staff will also discuss whether the proposed Update includes an underlying principle for evaluating the factors included in the principal versus agent analysis.

Background

2. The proposed Update includes the following three factors to evaluate whether a decision-maker is using its authority as a principal or an agent:
 - (a) Rights held by other parties
 - (b) Fees paid to a decision maker
 - (c) Exposure to variability of returns from other interests (that is, economic interests held).
3. When a decision-maker has a variable interest in a legal entity, the proposed Update requires the factors above to be separately analyzed concurrently with the analysis of the characteristics of VIEs, VOEs, and the determination of controlling financial interests in the respective VIE or VOE models.
4. As a part of redeliberations at the November 6, 2012 Board meeting, the Board unanimously voted that a principal in a VIE is the primary beneficiary of the VIE. As a result, under the VIE and VOE models, the principal is the entity with a controlling financial interest in the legal entity being evaluated for consolidation.

5. Most comment letter respondents do not believe that the principal versus agent analysis has an underlying principle for evaluating the respective factors provided in this analysis and, as a result, are concerned that there will be a lack of consistency in practice when performing the analysis.
6. To address these concerns and to reconcile the fundamentals of the principal versus agent analysis with the underlying principle of Topic 810 (having a controlling financial interest), the staff believes the Board should consider integrating the factors (via retention of the fundamentals of those factors) within the scope determination of VIEs and VOES and the determination of a controlling financial interest, rather than considering the fundamentals in a separate principal versus agent analysis.

Alternatives for Board Consideration

7. **Alternative A** – Integrate the principal versus agent factors into the existing guidance in Topic 810 and retain the fundamentals of those factors in Topic 810 such that the determination of a controlling financial interest would inherently conclude that the entity holding the controlling financial interest would also be the principal of the entity. Integrating the fundamentals within the existing guidance would not require a separate, distinct principal versus agent analysis to be performed for VIEs and VOEs.
8. **Alternative B** – Do not amend the guidance in the proposed Update. Under this alternative, a separate principal versus agent analysis will be performed, with the distinct factors to be assessed, concurrent with the analysis of whether a reporting entity has a controlling financial interest.

Staff Recommendation

9. The staff recommends Alternative A.

Question for the Board

Should the principal versus agent factors be integrated into the existing guidance in Topic 810 for VIEs and VOEs?

**Board Meeting Handout
Ratification of EITF Decisions
December 11, 2013**

At today's meeting, the staff will request that the Board consider ratifying four consensuses and one consensus-for-exposure reached by the Emerging Issues Task Force at its November 14, 2013 meeting. The staff also will request that the Board consider adding an issue to the EITF agenda to evaluate whether the guidance within EITF Issue No. 13-B for affordable housing tax credit investments should be extended to other types of tax credit investments.

TASK FORCE CONSENSUSES

Issue 12-G, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity"

The Task Force reached a consensus to define a collateralized financing entity as a variable interest entity that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity. The beneficial interests have recourse to the related financial assets of the collateralized financing entity and are classified as financial liabilities.

The Task Force reached a consensus that a reporting entity should measure both the financial assets and the financial liabilities of the collateralized financing entity using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The Task Force clarified that a reporting entity's consolidated statement of income (loss) should reflect the reporting entity's own economic interests. Changes in the fair value of the beneficial interests retained by the reporting entity should be recognized in the consolidated statement of income of the reporting entity. Other beneficial interests retained by the reporting entity that represent compensation for services (for example management fees) and nonfinancial assets that are held temporarily by a collateralized financing entity should be accounted for in accordance with other applicable guidance in U.S. GAAP.

The Task Force reached a consensus that a reporting entity that consolidates a collateralized financing entity and measures the financial assets or the financial liabilities of the collateralized financing entity using this guidance should disclose all of the information required by Topic 820, Topic 825, and other relevant Topics, as applicable, for the fair value of the financial assets or the financial liabilities, whichever is more observable, and for any beneficial interests retained by the reporting entity (other than those that represent compensation for services).

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

The Task Force reached a consensus that reporting entities may apply the amendments using a modified retrospective approach. In addition, the Task Force agreed that reporting entities may apply the amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2009-17 were initially adopted.

The Task Force reached a consensus that the amendments should become effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments are effective for the annual period beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted.

Question for the Board

Question 1: Does the Board wish to ratify the consensus for Issue 12-G?

Issue 12-H, “Accounting for Service Concession Arrangements”

The Task Force reached a consensus that the Issue applies to an operating entity of a service concession arrangement entered into with a public-sector entity grantor when the arrangement contains both of the following conditions:

1. The grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
2. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

The Task Force reached a consensus that service concession arrangements within the scope of this Issue should not be accounted for as leases under Topic 840 and that the infrastructure that is the subject of a service concession arrangement within the scope of this Issue should not be recognized as property, plant, and equipment of the operating entity.

The Task Force reached a consensus that the amendments resulting from this Issue should be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity’s fiscal year of adoption.

The Task Force reached a consensus that the amendments should become effective for public business entities for annual periods (and interim reporting periods within those annual periods) beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for the annual reporting period beginning after December 15, 2014, and interim and annual reporting periods thereafter. Early adoption is permitted.

Question for the Board

Question 2: Does the Board wish to ratify the consensus for Issue 12-H?

Issue 13-B, “Accounting for Investments in Qualified Affordable Housing Projects”

The Task Force reached a consensus that a reporting entity can elect to account for an investment in a qualified affordable housing project using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance amortization in the income statement as a component of income taxes.

The Task Force reached a consensus that a reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations.

The Task Force reached a consensus that an entity should apply the guidance on a retrospective basis. The Task Force decided, however, that a reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects prior to the date of adoption would be permitted to continue to apply the effective yield method for those investments.

The Task Force decided that the amendments should be effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for the annual period beginning after December 15, 2014, and interim and annual reporting periods thereafter. Early adoption is permitted.

Question for the Board

Question 3: Does the Board wish to ratify the consensus for Issue 13-B?

Issue 13-E, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure”

The Task Force reached a consensus that an in substance repossession or foreclosure occurs, that is, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure sale or (b) the borrower conveying all interest in the residential real estate

property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The Task Force decided that an entity should be considered to obtain physical possession when it obtains legal title because the creditor generally has the right to sell the property subject to the borrower's right of redemption. In addition, the Task Force observed that redemption rights of the borrower are not considered substantive since they are rarely exercised by the borrower.

Additionally, the Task Force reached a consensus that the amendments should require disclosure of (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

The Task Force reached a consensus that entities can elect to apply the amendments resulting from this Issue on either a modified retrospective or prospective basis.

The Task Force reached a consensus that the amendments in this Update should be effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for the annual period beginning after December 15, 2014, and interim and annual periods thereafter. Early adoption is permitted.

Question for the Board

Question 4: Does the Board wish to ratify the consensus for Issue 13-E?

TASK FORCE CONSENSUS-FOR-EXPOSURE

Issue 13-F, "Classification of Certain Government Insured Residential Mortgage Loans upon Foreclosure"

The Task Force reached a consensus-for-exposure that the proposed guidance resulting from this Issue would apply to residential mortgage loans for which (a) there is a government guarantee that is not separable from the loan entitling the creditor to recover the full unpaid principal balance of the loan, and (b) at the time of foreclosure the creditor has the intent and ability to recover under the guarantee.

The Task Force reached a consensus-for-exposure that a creditor should reclassify a government guaranteed residential mortgage loan for which the creditor has the intent and ability to recover the full unpaid principal balance of the loan to a separate receivable at the time of foreclosure.

The Task Force reached a consensus-for-exposure not to add incremental disclosure requirements to those already required.

The Task Force reached a consensus-for-exposure that the amendments in this proposed Update should be applied using the same transition method elected by a reporting entity for application of guidance within EITF Issue 13-E, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure”. Early adoption would be permitted.

Question for the Board

Question 5: Does the Board wish to ratify the consensus-for-exposure for Issue 13-F?

EXPOSURE PERIOD FOR THE EITF ISSUE 13-F EXPOSURE DRAFT

The staff expects the exposure draft to be issued by mid-January. The next EITF meeting at which this Issue can be redeliberated is on June 12, 2014. Therefore, to allow sufficient time for constituents to provide input, the staff recommends that the comment period deadline be on April 10, 2014. This would maximize the comment period while allowing sufficient time for the staff to analyze the feedback before the June EITF meeting.

Question for the Board

Question 6: Does the Board agree with the staff’s recommendation that the proposed Update for Issue 13-F be exposed for a comment period ending on April 10, 2014?

EITF POTENTIAL NEW AGENDA ITEM: APPLICATION OF EITF ISSUE 13-B TO OTHER TYPES OF TAX CREDIT INVESTMENTS

The Task Force reached a consensus to limit the scope of Issue 13-B to only investments in qualified affordable housing projects. The Task Force also recommended that the Board consider adding a separate project to the EITF agenda to assess the applicability of the guidance in Issue 13-B to other types of tax credit investments. If the Board decides to add this separate project, the Task Force has already tentatively reached a consensus-for-exposure based on the decisions reached in its consensus on Issue 13-B. The exposure draft would ask constituents whether they believe that the amendments in Issue 13-B are also appropriate for other tax credit investments.

Question for the Board

Question 7: Does the Board wish to add a project to the Task Force’s agenda to assess the applicability of the consensus on Issue 13-B to other types of tax credit investments? If so, does the Board wish to ratify the consensus-for-exposure already reached by the Task Force on this new issue?