

MINUTES



MEMORANDUM

To: Board Members

From: Consolidation Team
(McKeown x399)

Subject: Minutes of the March 8, 2017 Board Meeting on Consolidation **Date:** June 14, 2017

cc: Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Consolidation (Topic 810)

Basis for Discussion: **FASB Memo No. 6**, Summary of Memorandums and Transition
FASB Memo No. 7, Reorganization and Clarification of Topic 810
FASB Memo No. 8, Private Company—Applying VIE Guidance to Entities under Common Control
FASB Memo No. 9, Targeted Improvements to Common Control Arrangements

Length of Discussion: 9:45 a.m. to 12:10 p.m. (EST)

Attendance:

Board members present: Golden, Kroeker, Botosan, Schroeder, Siegel, Smith, and Monk

Board members absent: None

Staff in charge of topic: Roberge

Other staff at Board table: Cospser, Esposito, Cheng, Drucker, McKeown, and Bowen

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to reorganizing the consolidation guidance, Topic 810, Consolidation, and clarifying certain items within that Topic. The Board also met to discuss and determine whether it wants to add projects addressing private company concerns about applying Topic 810 to common control arrangements and making other targeted improvements to common control arrangements.

The Board decided to proceed to separate the proposed Accounting Standard Updates for external review for (a) the reorganization and targeted improvements to Topic 810 and (b) targeted improvements to related party guidance for variable interest entities (VIE). The Board has not yet determined the timing of the releases of the proposed Updates.

Tentative Board Decisions:

Consolidation: Reorganization and Targeted Improvements

Proceed with Proposed Reorganization

The Board decided that it has sufficient information to consider proceeding with the proposed reorganization of Topic 810 into a new Topic 812 with separate Subtopics for VIEs and voting interest entities.

(Vote: 7–0)

Reorganization of Topic and Subtopics

The Board decided to move the guidance for “Consolidation of Entities Controlled by Contract” from Topic 810, Consolidation, to Topic 958, Not-for-Profit Entities.

(Vote: 7–0)

Simplification and Clarification of Guidance in Topic 810

The Board directed the staff to incorporate language into the reorganization of Topic 810 summarizing the application of *expected* to assist stakeholders with applying the concept of expected as it relates to the definitions and concepts of variable interest, expected losses, and expected residual returns.

(Vote: 5–2)

Transition Requirements and Disclosures

The Board decided that entities that have not yet adopted the amendments in Accounting Standards Update No. 2015-02, *Consolidation: Amendments to the Consolidation Analysis*, would be required to adopt the amendments in the proposed Update at the same time they adopt the amendments in Update 2015-02 and would apply the same transition method elected for applying Update 2015-02.

The Board decided that entities that already have adopted the amendments in Update 2015-02 would be required to apply the proposed amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2015-02 initially were applied.

(Vote 7-0)

The Board decided that an entity should provide the transition disclosures required within paragraphs 250-10-50-1 through 50-2 (excluding the disclosure requirements in paragraph 250-10-50-1(b)(2)).

(Vote 7-0)

Next Steps

The Board directed the staff to draft a proposed Update of the reorganization of Topic 810 for external review. The proposed reorganization would result in a new Topic 812 with separate Subsections for VIEs and voting interest entities, respectively.

Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities

Agenda Request

The Board decided to add a project to make targeted improvements to VIE guidance for common control arrangements.

(Vote: 4-3)

Alternative for Entities under Common Control

The Board decided to provide an accounting alternative to exempt private companies from having to apply the VIE guidance in Topic 810 to private companies under common control.

(Vote 5-2)

Scope of Alternative for Private Companies under Common Control

The Board decided that to qualify for the accounting alternative, the reporting entity, the common control parent, and the legal entity being evaluated for consolidation cannot be public business entities.

(Vote: 5-2)

The Board decided that application of the accounting alternative would be an accounting policy election and a private company that makes the election would apply the alternative to all legal entities and provide enhanced disclosures.

(Vote: 6-1)

The Board decided that the enhanced disclosures will be derived from existing VIE disclosure requirements of a reporting entity that has a variable interest in a VIE but is not the primary beneficiary.

(Vote: 7-0)

The Board decided to remove the alternative for private company leasing arrangements under common control from the VIE guidance provided in Accounting Standards Update No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*. The Board plans to ask whether there are reporting entities within the scope of that guidance that would not be permitted to apply the proposed alternative in its forthcoming proposed Update.

(Vote: 6-1)

Amendment to Fees Paid to Decision Makers Guidance

The Board decided that when evaluating whether a decision maker's fee is a variable interest, an indirect interest held by a decision maker in a VIE through a related party under common control would be considered on a proportional basis.

(Vote: 6-1)

Amendment to Related Party Tie-Breaker Test

The Board decided to make the following amendments to the consolidation guidance for situations in which a related party group of commonly controlled entities holds a controlling financial interest and no single entity within the related party group has a controlling financial interest through its direct and indirect interests:

1. Require consolidation for a related party under common control when substantially all of the activities of a VIE involve or are conducted on behalf of that related party.
2. Provide criteria for a reporting entity to consider in determining whether a related party in a common control arrangement has a controlling financial interest in a VIE. This removes the required consolidation that exists in current GAAP at the commonly controlled entity reporting level.

Regardless of the consolidation outcome at the standalone level of the commonly controlled entities, the parent entity would continue to consolidate the VIE as, in aggregate through consolidation of its commonly controlled entities, it continues to have a controlling financial interest in the VIE.

(Vote 5-2)

Transition Requirements and Disclosures

The Board decided that an entity should apply all forthcoming amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments are initially applied.

(Vote 7-0)

The Board decided that an entity should provide the transition disclosures required within paragraphs 250-10-50-1 through 50-2 (excluding the disclosure requirements in paragraph 250-10-50-1(b)(2)).

(Vote 7-0)

Next Steps

The Board directed the staff to draft a proposed Update for external review.

General Announcements:

None.