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ALERT

FASB Makes Targeted Change to VIE Primary Beneficiary Test

In evaluating whether it is the primary beneficiary, the new FASB Accounting Standards Update (ASU) requires a single decision maker or service provider to consider indirect interests held through related parties under common control proportionately.[1]

Key Facts

How a Decision Maker or Service Provider Considers Indirect Interests Held through Related Parties under Common Control		
Consolidation Step	**Current U.S. GAAP[2]**	**ASU[3]**
Determine whether a decision maker's fee is a variable interest	Consider interests held by these related parties in their entirety	No change[4]
If the fee is a variable interest, determine whether the decision maker is the primary beneficiary of the variable interest entity (VIE)	Consider interests held by these related parties **in their entirety**	Consider interests held by these related parties **on a proportionate basis**

- The ASU makes it *less likely* that a single decision maker would individually meet the characteristics to be the primary beneficiary of the VIE.
- However, it is *more likely* that a related-party tiebreaker test would be performed. The test occurs when the single decision maker and its related parties under common control collectively meet the characteristics to be the VIE's primary beneficiary. A decision maker could be the primary beneficiary of a VIE under that test even if it doesn't individually meet the characteristics to be VIE's the primary beneficiary.

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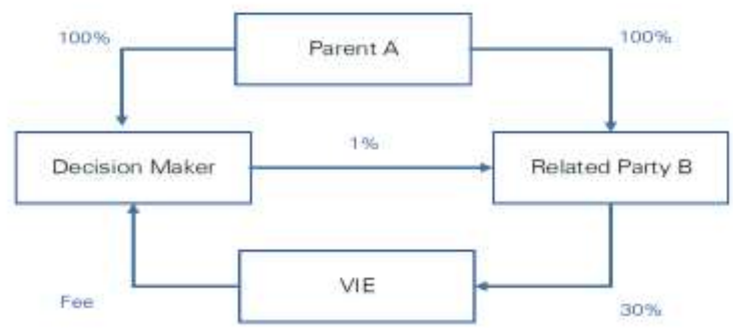
[1] FASB Accounting Standards Update No. 2016-17, Interests Held through Related Parties That Are under Common Control, October 26, 2016, available at www.fasb.org.

[2] FASB ASC Topic 810, Consolidation, as amended by FASB Accounting Standards Update No. 2015-02, Amendments to the Consolidation Analysis, both available at www.fasb.org.

[3] There are no changes to current U.S. GAAP if (1) the decision maker does not hold an interest in a related party or (2) the decision maker holds an interest in a related party but the related party is not under common control with the decision maker.

[4] The FASB may evaluate in a separate project whether to propose changes to this consolidation step for related parties under common control with the decision maker.

Indirect Interests Held through Related Parties under Common Control with a Single Decision Maker (or Service Provider)	
What is the issue?	Under current consolidation guidance, a single decision maker may meet the characteristics to be a VIE's primary beneficiary because of indirect interests held through related parties under common control. This outcome results because the decision maker must consider these indirect interests as its own, even though it may have little or no *direct* economic interest in the VIE, as shown here.  Because a parent at its discretion may move or reallocate power and/or economic interests in a related-party group under common control, requiring the decision maker to consolidate the VIE may not provide meaningful information to financial statement users.
What does the ASU change?	To determine whether it individually meets the characteristics to be the VIE's primary beneficiary, a single decision maker includes indirect interests held through related parties on a proportionate basis, even if they are under common control. In this example, the decision maker includes a 0.3% (1% x 30%) indirect interest to determine whether it individually meets the criteria to be the VIE's primary beneficiary, and concludes that it does not. However, because (1) the decision maker is a single decision maker and (2) the decision maker and Related Party B are under common control and collectively meet the characteristics to be the VIE's primary beneficiary, a related-party tiebreaker test is performed to determine which party would consolidate the VIE.

Entities that have not adopted ASU 2015-02 should adopt ASU 2016-17 at the same time and apply the same transition method for both standards.

Entities that already adopted ASU 2015-02 should apply ASU 2016-17 retrospectively to all periods beginning with the earliest annual period in which they adopted ASU 2015-02.

Effective Date

	The entity is …	
	… a public business entity	**… any other entity**
When is the ASU effective?	Annual and interim periods in fiscal years beginning after **12/15/2016**	Annual periods beginning after **12/15/2016,** and interim periods in fiscal years beginning after **12/15/2017**
Can entities early adopt?	Entities can adopt the ASU on issuance, including in an interim period. However, if an entity adopts in an interim period other than the first interim period, it should compute and reflect the cumulative effect of the accounting change as of the beginning of the fiscal year that includes that interim period.	

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