Case 11-3

Master of the Universe

Saturn Inc. (Saturn) and Venus Inc. (Venus), two unrelated parties, form Jupiter, a joint venture. Saturn owns 51 percent of Jupiter and Venus owns 49 percent of Jupiter. The purpose of Jupiter is to own and operate organic clothing design and manufacturing facilities and sell organic clothing to unrelated retailers. When Jupiter was formed, Saturn contributed $561 million to Jupiter and Venus contributed four manufacturing facilities with an assembled workforce, with a total fair value of $539 million to Jupiter. Venus was looking to exit its clothing manufacturing business, as this business no longer was a strategic fit for Venus. However, Saturn was looking to expand its footprint in the manufacturing of children's clothing. In exchange for their contributions, Saturn and Venus received a combination of equity and debt securities for Jupiter (in proportion to their overall contributions).

The Articles of Incorporation of Jupiter state the following in terms of governance and management of Jupiter:

- The Board of Jupiter (the "Board") comprises eight individuals, four each appointed by Saturn and Venus.
- Both Saturn and Venus are able to nominate individuals for the position of CEO of Jupiter (the "CEO").
- The CEO is responsible for the day-to-day operations of Jupiter.
- Most Board actions are passed by a simple majority vote; however, the following actions cannot be taken without unanimous approval of the Board:
    - Appointment and removal of the CEO.
    - Decision to make calls for capital contributions.
    - Admission of new joint venture members.
    - Mergers and acquisitions.
- The power to make strategic decisions regarding the operations of Jupiter has been divided between Saturn and Venus. Saturn controls all decisions regarding the design, manufacturing, pricing, and sales of the clothing. Venus controls all decisions regarding distributing clothing in fulfillment of sales negotiated by Saturn on Jupiter's behalf.

Profits and losses of Jupiter are split according to ownership percentage; therefore, Saturn receives 51 percent and Venus receives 49 percent of the profits and/or losses of Jupiter.

Saturn has performed a consolidation analysis. From Saturn's perspective, Jupiter does not qualify for the business scope exception included in ASC 810-10-15-17(d) (as amended by ASU 2009-17, *Improvements to Financial Reporting by Enterprises*

Involved with Variable Interest Entities and formerly FASB Statement 167, *Amendments to FASB Interpretation No. 46(R)*), because Saturn has provided more than 50 percent of the equity, subordinated debt, and other forms of subordinated financial support to the entity based upon the fair values of the interest in the entity.

Saturn and Venus are not related parties, as defined in ASC 810-10-25-42 and 25-43 (as amended by ASU 2009-17).

All equity investments represent equity at risk. On the basis of the nature of the entity and the level of equity investment at risk, Jupiter is deemed to be a variable interest entity (VIE) pursuant to ASC 810-10-15-14(a) (as amended by ASU 2009-17).

Required:

- What is the primary purpose and design of Jupiter, including the risks that Jupiter was designed to create and pass through to its variable interest holders?
- Determine whether Saturn, Venus, or both are variable interest holders.
- Who, if anyone, is the primary beneficiary and why?