



In This Issue

- [Background](#)
- [Key Provisions of the Proposed ASU](#)
- [Transition and Effective Date](#)
- [Appendix A — Questions for Respondents](#)
- [Appendix B — Disclosure Requirements Under the VIE Model's Private-Company Scope Exception](#)
- [Appendix C — Flowchart: Effect of Related Parties on the VIE Primary-Beneficiary Determination](#)

FASB Proposes Targeted Amendments to the Related-Party Guidance for Variable Interest Entities

by Jen Kehrer and Andrew Winters, Deloitte & Touche LLP

On June 22, 2017, the FASB issued for public comment a [proposed ASU](#)¹ that would amend certain aspects of the related-party guidance in ASC 810.² The proposed ASU's three main objectives are (1) to add an elective private-company scope exception to the variable interest entity (VIE) guidance for entities under common control, (2) to remove a sentence in ASC 810-10-55-37D regarding the evaluation of fees paid to decision makers to conform with the amendments in ASU 2016-17³ (issued in October 2016), and (3) to make additional changes to the related-party guidance in the VIE primary-beneficiary assessment, including amending the guidance in ASC 810-10-25-44 (frequently referred to as the related-party tiebreaker test).

Comments on the proposed ASU are due by September 5, 2017. For ease of reference, we have reproduced the proposal's questions for respondents in [Appendix A](#) of this *Heads Up*. Note also that the FASB is expected to propose guidance in the third quarter of 2017 that would reorganize the requirements in ASC 810 into a new subtopic, ASC 812.

¹ Proposed FASB Accounting Standards Update, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*.

² FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*.

³ FASB Accounting Standards Update No. 2016-17, *Interests Held Through Related Parties That Are Under Common Control*.

Background

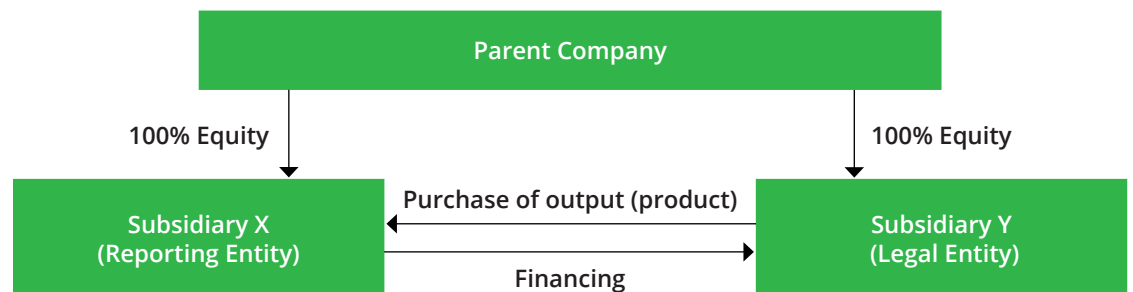
The determination of whether a legal entity should be consolidated by a reporting entity begins with an evaluation of whether the legal entity is subject to a general exception to the consolidation requirements in ASC 810-10. If a legal entity is not subject to a general exception, the evaluation should focus on whether the legal entity is subject to an exception to the VIE model.⁴ In 2014, the FASB issued ASU 2014-07,⁵ which provided a private-company scope exception to the VIE guidance for certain entities that are under common control and have leasing arrangements that meet certain conditions.

If no general scope exception or VIE scope exception is available, when the reporting entity has a variable interest, it is required to determine whether the legal entity is a VIE. If the legal entity is a VIE, the reporting entity should evaluate whether it is the primary beneficiary of the VIE. Under ASC 810, the primary beneficiary of a VIE is defined as the entity that has both (1) the “power to direct the activities of a VIE that most significantly impact the VIE’s economic performance” (the “power criterion”) and (2) the “obligation to absorb losses of the VIE . . . or the right to receive benefits from the VIE that could potentially be significant to the VIE” (the “economics criterion”). ASU 2015-02⁶ (issued in February 2015) and ASU 2016-17 amended the economics criterion to require a reporting entity that is a single decision maker to consider, when assessing the effects of related-party relationships, interests held by its related parties (including de facto agents) only if the reporting entity has a direct interest in the related parties.⁷ Under ASC 810, as amended by those two ASUs, interests held through related parties under common control are considered (1) in their entirety as direct interests held by the decision maker in the evaluation of whether the decision maker’s fee arrangement is a variable interest and (2) proportionately as an indirect interest held by the decision maker in the primary-beneficiary analysis.

Key Provisions of the Proposed ASU

Scope Exception to the VIE Guidance for Private Companies Under Common Control

The proposed ASU’s scope exception would broaden the exception currently available to private companies by allowing all legal entities under common control to elect an exemption from the VIE guidance as long as the reporting entity, the common-control parent, and the legal entity being evaluated for consolidation are not public business entities. In the illustration below, Subsidiary X (the reporting entity) would be eligible to apply the proposed scope exception to Subsidiary Y (the legal entity) only if the three entities are not public business entities.



⁴ See additional discussion in [Chapter 3, “Scope,”](#) of Deloitte’s *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

⁵ FASB Accounting Standards Update No. 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements* — a consensus of the Private Company Council.

⁶ FASB Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*.

⁷ See also the guidance in ASC 810-10-25-44 through 25-44B on determining the primary beneficiary for certain related-party relationships.

The scope exception would be considered an accounting policy election that a reporting entity would be required to apply to all legal entities that qualify. In addition, because the scope exception would be limited to the VIE guidance, a private reporting entity would still be required to evaluate the consolidation guidance under the voting interest entity model to determine whether the reporting entity has a controlling financial interest. If a reporting entity that applies the scope exception **does not** have a controlling financial interest under the voting interest entity model, it would be required to provide enhanced disclosures. See [Appendix B](#) of this *Heads Up* for the proposed ASU's disclosure requirements and an example.



Connecting the Dots

The FASB based the proposed ASU's disclosure requirements on scenarios in which a reporting entity has a variable interest in a VIE but is not the primary beneficiary of the VIE. As noted in paragraphs BC13 and BC14 of the proposed ASU, private companies often have difficulty applying the VIE guidance because of the lack of formal arrangements between entities under common control. Because of the disclosures that would be required as a result of applying the proposed ASU's scope exception, such difficulty may continue under the proposed ASU.

The scope exception under the proposal would supersede that in ASU 2014-07 because of the FASB's assumption that the proposed guidance on common-control relationships for private companies would encompass existing leasing arrangements that qualified for the previous scope exception. In [Question 3](#) of the proposal's questions for respondents, the FASB seeks feedback on whether such an assumption is correct and, if so, whether the Board should therefore remove the scope exception in ASU 2014-07.

Evaluation of Fees Paid to a Decision Maker

As discussed above, ASC 810 currently requires indirect interests held by related parties under common control to be considered in their entirety⁸ in the evaluation of whether a decision maker's fee arrangement is a variable interest under ASC 810-10-55-37(c). ASU 2016-17 amended ASC 810-10-25-42 to require consideration of these indirect interests on a proportionate basis in the primary-beneficiary analysis but did not align current guidance with the considerations related to the variable interest analysis. Accordingly, the proposed ASU would remove a sentence in ASC 810-10-55-37D⁹ to conform the guidance in that paragraph with the amendments in ASU 2016-17.



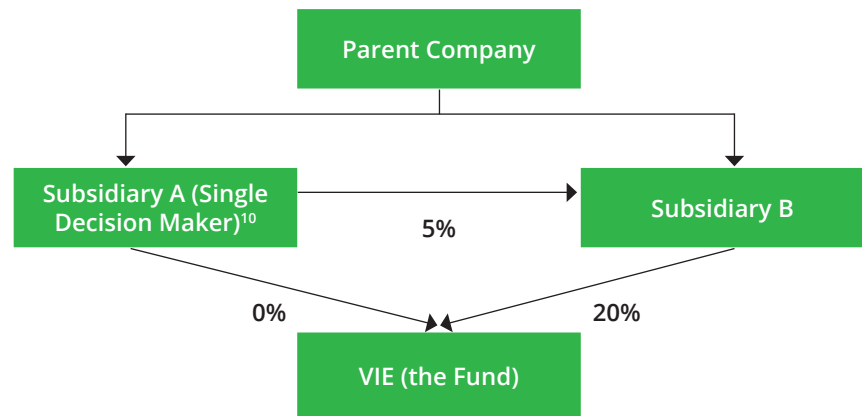
Connecting the Dots

Under current guidance, there is asymmetry in the manner in which a decision maker's indirect interests held through a related party under common control are evaluated regarding (1) the identification of a variable interest and (2) the determination of a VIE's primary beneficiary in the assessment of related-party relationships. Under the proposed guidance, since the evaluation of indirect interests would be aligned in both of these analyses, a decision maker would be less likely to be required to apply the VIE model because fewer fee arrangements would qualify as variable interests.

⁸ Specifically ASC 810-10-55-37D.

⁹ The proposal would remove the following sentence, "Indirect interests held through related parties that are under common control with the decision maker should be considered the equivalent of direct interests in their entirety."

For example, as the diagram below depicts, a fund's single decision maker could have only a 5 percent interest in a related party under common control that holds a 20 percent interest in a fund. Under ASC 810 as amended by ASU 2015-02 and ASU 2016-17, the single decision maker would have a variable interest in accordance with ASC 810-10-55-37(c) and ASC 810-10-55-37D because the 20 percent interest held by the entity under common control would be treated as the decision maker's interest in its entirety. When performing the primary-beneficiary analysis, the decision maker would treat only 1 percent of the interest as its own in determining whether it has satisfied the economics criterion. Accordingly, the decision maker's fee arrangement would satisfy the power criterion, but the fee arrangement itself would not satisfy the economics criterion.



If the proposed amendments were applied to the scenario in the diagram above, the decision maker would consider only the 1 percent interest as its own (i.e., proportionately) when evaluating whether the fee arrangement was a variable interest, in a manner similar to its assessment of the interest attributable to the decision maker in the primary-beneficiary step under current guidance. Thus, the fee arrangement would not be a variable interest provided that the fees are otherwise “commensurate”¹¹ and “at market”¹² under ASC 810-10-55-37(a) and (d). The decision maker would therefore not be required to apply the VIE model because it does not have a variable interest.

Related-Party Considerations in the Primary-Beneficiary Assessment

The proposed ASU would make significant changes to the “substantially all” characteristic¹³ and the related-party tiebreaker test, which would affect the primary-beneficiary assessment when certain related-party relationships exist.

Substantially All Characteristic

Under the proposed ASU, if substantially all of the activities of the VIE either involve or are conducted on behalf of a reporting entity within the related-party group, that reporting entity would be required to consolidate the VIE provided that it does not direct the VIE's most significant activities. The reporting entity would determine whether the substantially all characteristic has been met before performing the related-party tiebreaker test, as discussed below.

¹⁰ It is assumed that Subsidiary A receives a fee for decision-making that meets the conditions in ASC 810-10-55-37(a) and (d).

¹¹ The fees are compensation for services provided and are commensurate with the level of effort required to provide those services.

¹² The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length.

¹³ See Sections 5.4.2 and 7.4.2.5 of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest* for discussions of (1) the “substantially all” characteristic in the determination of whether a legal entity is a VIE and (2) the primary-beneficiary assessment.

Under current guidance, a reporting entity performs the related-party tiebreaker test after it has determined that no party individually has satisfied both the power and the economics criterion and either (1) related parties have shared power or (2) a single decision maker has satisfied the power criterion and, collectively with entities under common control, the related-party group has satisfied the economics criterion. If neither scenario is applicable, a reporting entity subsequently evaluates whether the substantially all characteristic has been met for a single member that is not the single decision maker in the related-party group. Under the proposed ASU, however, the reporting entity would be required to first evaluate whether the substantially all characteristic is met and, if it has not been met, subsequently evaluate the qualitative factors discussed below to determine whether to consolidate the VIE when (1) power is shared in the related-party group or (2) the related-party group is under common control.



Connecting the Dots

The substantially all threshold is high. We are aware that the term has been interpreted, on the basis of SEC staff language and other considerations, as 90 percent or more of a VIE's activities; however, we reject the use of a strictly quantitative approach. Rather, the determination of substantially all typically requires a qualitative assessment of the VIE's activities. As a result of the proposed change to the sequence in which the consolidation assessment steps are performed, we expect that certain entities would be required to consolidate under the substantially all characteristic that previously consolidated as a result of the related-party tiebreaker test.

The proposed ASU would amend the flowchart in ASC 810-10-05-6 (reproduced in [Appendix C](#) of this *Heads Up*), which illustrates considerations regarding the effect of related parties on the determination of a VIE's primary beneficiary.

In addition, the proposed ASU would clarify that when a single decision maker does not have a variable interest, the related-party group should still evaluate whether substantially all of the activities of the VIE either involve or are conducted on behalf of the reporting entity (which cannot be the single decision maker who does not have a variable interest) in the related-party group.

Related-Party Tiebreaker Test

As discussed above, the related-party tiebreaker test is currently performed in two scenarios. In both, one of the related parties under common control is required to be identified as the party most closely associated with the legal entity being evaluated for consolidation and, as a result, must consolidate the VIE. In other words, one of the parties in the related-party group is forced to consolidate the VIE as a result of performing the related-party tiebreaker test.

The FASB has proposed removing the mandatory consolidation requirement and replacing it with qualitative factors for consideration in the evaluation of whether a member of a related-party group is the primary beneficiary. Unlike current guidance, however, the proposal does not require one of the related parties to consolidate the VIE. The proposed amendments would apply in situations in which (1) power is shared or (2) neither a reporting entity nor its related parties under common control are the primary beneficiary, including a situation in which a decision maker in the common-control group does not have a variable interest. Proposed ASC 810-10-25-44A provides the following qualitative factors, none of which is intended to be individually determinative:

- a. The purpose and design of the VIE
- b. The relationship and significance of the VIE's activities to the related parties

- c. The nature of the reporting entity's exposure to the VIE (for example, through pro rata equity, senior interest, subordinated interest, and so forth)
- d. The magnitude of a reporting entity's exposure to the variability associated with the anticipated economic performance of the VIE (for example, whether the reporting entity's exposure is greater than a majority of the variability associated with the anticipated economic performance of the VIE).



Connecting the Dots

The FASB first introduced the related-party tiebreaker test in paragraph 16 of Interpretation 46¹⁴ (codified in ASC 810-10-25-44) to require consolidation by a reporting entity in a related-party group when the related parties as a group have the characteristics of a primary beneficiary. When the Board subsequently issued Statement 167,¹⁵ it did not remove the related-party tiebreaker test but required reporting entities to apply it only in situations in which none of the related parties, individually on their own, met the characteristics of a primary beneficiary.

ASU 2015-02 reduced the instances in which the related-party tiebreaker test was performed, limiting it to scenarios in which none of the related parties, on their own, met the characteristics of a primary beneficiary and either (1) there was shared power for related parties or (2) a single decision maker satisfied the power criterion and, collectively with entities under common control, the related-party group satisfied the economics criterion.

The FASB has indicated that it issued the proposed ASU in response to stakeholder feedback indicating that requiring one of the reporting entities in a related-party group to consolidate when that party clearly has not satisfied both the power and the economics criterion does not produce meaningful financial reporting results. In addition, some stakeholders described diversity in practice related to applying the related-party tiebreaker test because it is dependent on specific facts and circumstances.

By permitting a conclusion that no related party should consolidate a VIE, the proposed ASU addresses stakeholder feedback indicating that forced consolidation is not always meaningful. However, we do not believe that the proposed ASU would reduce a reporting entity's requirement to use judgment, or diversity in practice, because the proposed ASU's qualitative factors for consideration are similar to those under the existing related-party tiebreaker test. Further, as written, the proposed ASU could increase diversity related to determining whether a related party should consolidate a VIE, because the proposed guidance does not provide a clear principle to apply in the analysis of the qualitative factors.

However, the proposed ASU would resolve diversity related to when a decision maker is deemed not to have a variable interest by requiring the related parties under the decision maker's common control to consider the qualitative factors. In [Section 7.4.2.3](#) of *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*, we discuss the following two views held by practitioners regarding this situation under existing GAAP:

- *View A* — The related-party tiebreaker test should never be performed.
- *View B* — The related-party tiebreaker test should be performed to determine whether the VIE is the party that is most closely associated with one of the related parties under common control. However, a decision maker would not be required to consolidate because it does not have a variable interest.

¹⁴ FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* — an interpretation of ARB No. 51.

¹⁵ FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*.

The proposed ASU would clarify that in this situation, the qualitative factors should always be considered by the related parties under common control, excluding the decision maker that does not have a variable interest.

The proposed ASU also requires the parent reporting entity to consolidate the VIE when related parties under common control exist and as a group have a controlling financial interest in the VIE, unless the parent can apply a scope exception to the VIE model. This guidance is consistent with practice today, but the proposed ASU would clarify the requirement.

Recap of Significant Proposed Changes to the Related-Party Considerations in the Primary-Beneficiary Assessment

In summary, the proposed ASU would make the following significant changes to the related-party guidance considerations in the VIE primary-beneficiary assessment:

- Reorder the steps of the assessment to require initial evaluation of the “substantially all” characteristic and subsequent evaluation of the qualitative factors for certain related-party relationships.
- Require, when no party on its own meets the characteristics of a primary beneficiary, consolidation of a VIE by a member of the related-party group, if any, if substantially all of the activities of the VIE either involve or are conducted on behalf of that member.
- Eliminate required consolidation under the related-party tiebreaker test.
- Add qualitative factors for consideration in the determination of whether a reporting entity in a related-party group under common control or a related-party group with shared power should consolidate a VIE.
- Expand the scope of reporting entities applying the qualitative factors to **all** common-control relationships when no party on its own meets the characteristics of a primary beneficiary, including related-party groups under common control in which a decision maker is deemed not to have a variable interest.
- Add a requirement that the following must be considered for related-party groups in which there is a single decision maker that does not have a variable interest:
 - The substantially all characteristic.
 - Qualitative factors if no party is required to consolidate under the substantially all characteristic and the reporting entities in the related-party group are under common control.

Transition and Effective Date

The FASB plans to determine an effective date for the final guidance after considering stakeholder feedback on the proposed ASU.

If a reporting entity has not already adopted ASU 2015-02, it would be required to apply the guidance concurrently with the amendments in ASU 2015-02 and use the same transition method. If ASU 2015-02 has already been adopted, the reporting entity would be required to apply the proposed ASU's amendments retrospectively for all periods beginning with the year ASU 2015-02 was initially adopted. Early adoption would be permitted.

A reporting entity would also be required to provide certain disclosures about a change in accounting principle, specifically ASC 250-10-50-1 and 50-2 (other than those in ASC 250-10-50-1(b)(2)¹⁶) in the period it adopts the amendments.

¹⁶ ASC 250-10-50-1(b)(2) requires reporting entities to disclose the “effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted.”

Appendix A — Questions for Respondents

The proposed ASU's questions for respondents are reproduced below for reference.

General

Question 1: Should all common control arrangements (that is, for both private companies and public business entities) be excluded from the scope of VIE guidance (as opposed to just an option for private companies as provided in the amendments in this proposed Update)? Please explain.

Private Company Accounting Alternative

Question 2: Do you agree that a private company (reporting entity) should have an option to not apply VIE guidance to legal entities under common control if both the common control parent and the legal entity being evaluated for consolidation are not public business entities? If not, please explain why.

Question 3: Should the current accounting alternative for private company leasing arrangements under common control provided under Update 2014-07 be retained, or should it be replaced by the proposed broader private company alternative, assuming this proposed Update is finalized? Would the proposed accounting alternative continue to address the concerns of private companies currently applying the accounting alternative for leasing arrangements under common control? If not, please explain why. Additionally, what existing leasing arrangements that are eligible to be accounted for using the current alternative, if any, would not be captured by the accounting alternative in the proposed amendments?

Question 4: Do the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI adequately provide information about a reporting entity's involvement with and exposure to a legal entity? If not, please explain why. Also, please elaborate on any additional disclosures that you consider necessary to appropriately reflect a reporting entity's involvement with and exposure to a legal entity.

Decision-Making Fees

Question 5: Should indirect interests held through related parties that are under common control with a decision maker or service provider be considered on a proportionate basis, as opposed to being considered the equivalent of a direct interest in its entirety, when determining whether a decision-making fee is a variable interest in a VIE? If not, please explain why.

VIE Related Party Guidance for Parties Under Common Control

Question 6: Should a reporting entity be required to determine whether a controlling financial interest exists at the reporting entity level for situations in which power is shared among related parties or when related parties under common control, as a group, have a controlling financial interest but the parties individually do not? If not, please explain why. In doing so it is acknowledged that, in certain situations, it is possible that no reporting entity under common control will consolidate a VIE.

Question 7: Are the factors in paragraph 810-10-25-44A adequate for determining whether a reporting entity within a common control group may be the primary beneficiary of a VIE? If not, please explain why and describe what other factors you would recommend.

Question 8: Does the "related party tie-breaker" test currently in GAAP (paragraph 810-10-25-44) result in appropriate consolidation results? If yes, please explain why. Alternatively, would the proposed amendments cause unintended consequences or allow reporting entities to achieve a desired consolidation result that is inconsistent with the economics of a related party arrangement? If yes, please explain how.

Transition and Effective Date

Question 9: Do you agree with the proposed transition requirements in paragraph 810-10-65-9? If not, what transition approach would be more appropriate?

Question 10: Should a reporting entity be required to provide the transition disclosures specified in this proposed Update? Should any other disclosures be required? If so, please explain why.

Question 11: How much time is needed to implement the proposed amendments?

Question 12: Should the proposed amendments be effective on the same date for both public business entities and entities other than public business entities?

Question 13: Should the effective date of the private company accounting alternative be consistent with the amendments in Accounting Standards Update No. 2016-03, *Intangibles — Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, *Consolidation (Topic 810)*, *Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*?

Appendix B — Disclosure Requirements Under the VIE Model's Private-Company Scope Exception

The proposed ASU's disclosure requirements related to the private-company scope exception are reproduced below for reference.

ASC 810-10

50-2AG A reporting entity that neither consolidates nor applies the requirements of the Variable Interest Entities Subsections to a legal entity under common control because it meets the criteria in paragraph 810-10-15-17AD shall disclose the following:

- a. The nature and risks associated with a reporting entity's involvement with the legal entity under common control.
- b. How a reporting entity's involvement with the legal entity under common control affects the reporting entity's financial position, financial performance, and cash flows.
- c. The carrying amounts and classification of the assets and liabilities in the reporting entity's statement of financial position resulting from its involvement with the legal entity under common control.
- d. The reporting entity's maximum exposure to loss resulting from its involvement with the legal entity under common control. If the reporting entity's maximum exposure to loss resulting from its involvement with the legal entity under common control cannot be quantified, that fact shall be disclosed.
- e. If the reporting entity's maximum exposure to loss (as required by (d)) exceeds the carrying amount of the assets and liabilities as described in (c), qualitative and quantitative information to allow users of financial statements to understand the excess exposure. That information shall include, but is not limited to, the terms of the arrangements, considering both explicit and implicit arrangements, that could require the reporting entity to provide financial support (for example, implicit guarantee to fund losses) to the legal entity under common control, including events or circumstances that could expose the reporting entity to a loss.

50-2AH In applying the disclosure guidance in paragraph 810-10-50-2AG(d) through (e), a reporting entity under common control shall consider exposures through implicit guarantees. Determining whether an implicit guarantee exists is based on facts and circumstances. Those facts and circumstances include, but are not limited to, whether:

- a. The private company (reporting entity) has an economic incentive to act as a guarantor or to make funds available.
- b. The private company (reporting entity) has acted as a guarantor for or made funds available to the legal entity in the past.

50-2AI In disclosing information about the legal entity under common control, a private company (reporting entity) shall present these disclosures in addition to the disclosures required by other guidance (for example, in Topics 460 on guarantees, Topic 850 on related party disclosures, and Topic 842 on leases). Those disclosures could be combined in a single note or by including cross-references within the notes to financial statements.

Example 12 in the proposed ASU's disclosure requirements is reproduced below.

ASC 810-10

Example 12: Car Company (Reporting Entity) Under Common Control With Engine Company, Tire Company, and Purse Company

55-205AX Assume the following:

- a. Reporting entity Car Company (Car Co.), a private company, produces vehicles for sale.
- b. Car Co. has elected to apply the accounting alternative described in paragraph 810-10-15-17AD.
- c. The sole owner (not a public business entity) of Car Co. also is the sole owner of Engine Company (Engine Co.), Tire Company, Inc. (Tire Co.), and Purse Company (Purse Co.). Therefore, Engine Co., Tire Co., and Purse Co. are considered to be under common control. Only Purse Co. meets the definition of a public business entity.
- d. All companies under common control have third-party debt, and each respective company has pledged its assets as collateral for that debt. The third-party debt on each respective company is personally guaranteed by the owner.
- e. Engine Co. assumptions:
 1. Engine Co. was created by the owner to vertically integrate the supply chain for Car Co.'s production of vehicles.
 2. Engine Co. produces engines based on Car Co.'s design specifications.
 3. Engine Co. is the sole engine supplier for Car Co., and substantially all of Engine Co.'s production is sold to Car Co.
 4. No other engines on the market could replace the engines supplied by Engine Co.

ASC 810-10 (continued)

5. During 20XX, Car Co. charged Engine Co. \$225,684 for management and other services rendered.
 6. During 20XX, Car Co. purchased \$9,482,513 in engines from Engine Co.
 7. Engine Co. has an outstanding loan for \$600,000 due to Car Co. that is unsecured and accrues interest at 6 percent. This loan is subordinated to all other debt, and there are no specific repayment terms.
 8. Historically, Car Co. has provided funding to Engine Co. at the request of the owner.
 9. Total book value of Engine Co.'s liabilities is \$2,459,127 as of December 31, 20XX.
- f. Tire Co. assumptions:
1. Tire Co. was created by the owner to vertically integrate the supply chain for the Company's production of vehicles.
 2. Tire Co. sells a majority of its tires to Car Co.
 3. Many substitutes on the market could replace the tires provided by Tire Co.
 4. During 20XX, Car Co. charged Tire Co. \$74,568 for management and other services rendered.
 5. During 20XX, Car Co. purchased \$3,792,929 of tires from Tire Co.
 6. Tire Co. has an outstanding loan for \$200,000 due to Car Co. that is unsecured and accrues interest at 6 percent. This loan is subordinated to all other debt, and there are no specific repayment terms.
 7. Other than the \$200,000 loan, Car Co. has never provided any other additional funding to Tire Co. and is not contractually obligated to do so.
 8. Total book value of Tire Co.'s liabilities is \$1,250,000 as of December 31, 20XX.
- g. Purse Co. assumptions:
1. Purse Co. sells high-end designer purses.
 2. No significant transactions or arrangements exist between Purse Co. and the other entities under common control.
 3. Car Co. did not provide any management services to Purse Co.
 4. Car Co. has never provided any additional funding to Purse Co. and is not contractually obligated to do so.
 5. Total book value of Purse Co.'s liabilities is \$1,000,000 as of December 31, 20XX.

55-205AY Car Co. meets all the criteria in paragraph 810-10-15-17AD for Engine Co. and Tire Co. and can elect the accounting alternative. As a result of its elected accounting policy, Car Co. would apply the accounting alternative to Engine Co. and Tire Co. on the basis of the following:

- a. Car Co. (a private company), Engine Co., and Tire Co. are under common control.
- b. Car Co., Engine Co., and Tire Co. are under common control of an individual that is not a public business entity.
- c. Neither Engine Co. nor Tire Co. is a public business entity.

Although Purse Co. would not qualify for the accounting alternative because it is a public business entity, Car Co. does not consider Purse Co. to be a legal entity that needs to be assessed for consolidation because Car Co. has no variable interest in Purse Co. Therefore, Car Co. would not provide any disclosures related to Purse Co.

55-205AZ Based on the fact pattern described in paragraph 810-10-55-205AY, the following disclosures may satisfy the disclosure provisions in paragraphs 810-10-50-2AG through 50-2AI:

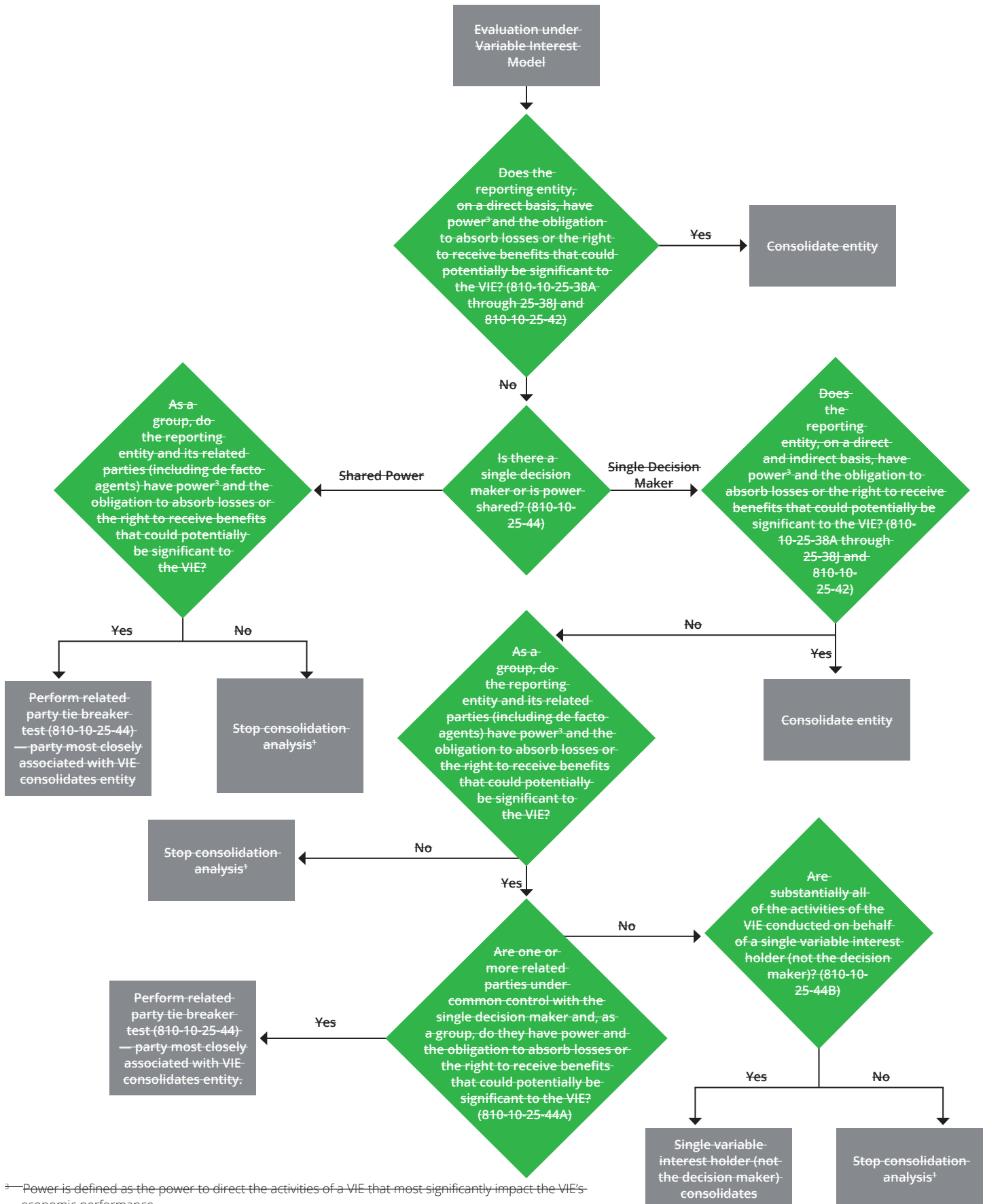
- a. Engine Company, Inc. (Engine Co.): Engine Co. and Car Company, Inc. (the Company) are under common control. Engine Co. was created by the owner to vertically integrate the supply chain for the Company's production of vehicles. The Company's ability to generate profits depends largely on Engine Co. Engine Co. produces engines for the Company's vehicles in accordance with the Company's design specifications for those engines. Substantially all of Engine Co.'s production is sold to the Company, and Engine Co. is the sole supplier of engines to the Company. No other engines on the market could replace the engines supplied by Engine Co. The Company provides Engine Co. with management and other services (including, but not limited to, accounting, billing, and administrative duties) for which it charged a management fee of \$225,684 in 20XX. The Company purchased \$9,482,513 of engines during 20XX from Engine Co. Engine Co. has an outstanding loan in the amount of \$600,000 due to the Company that is unsecured and accrues interest at 6 percent. The loan is subordinated to all other debt, and no specific repayment terms exist.

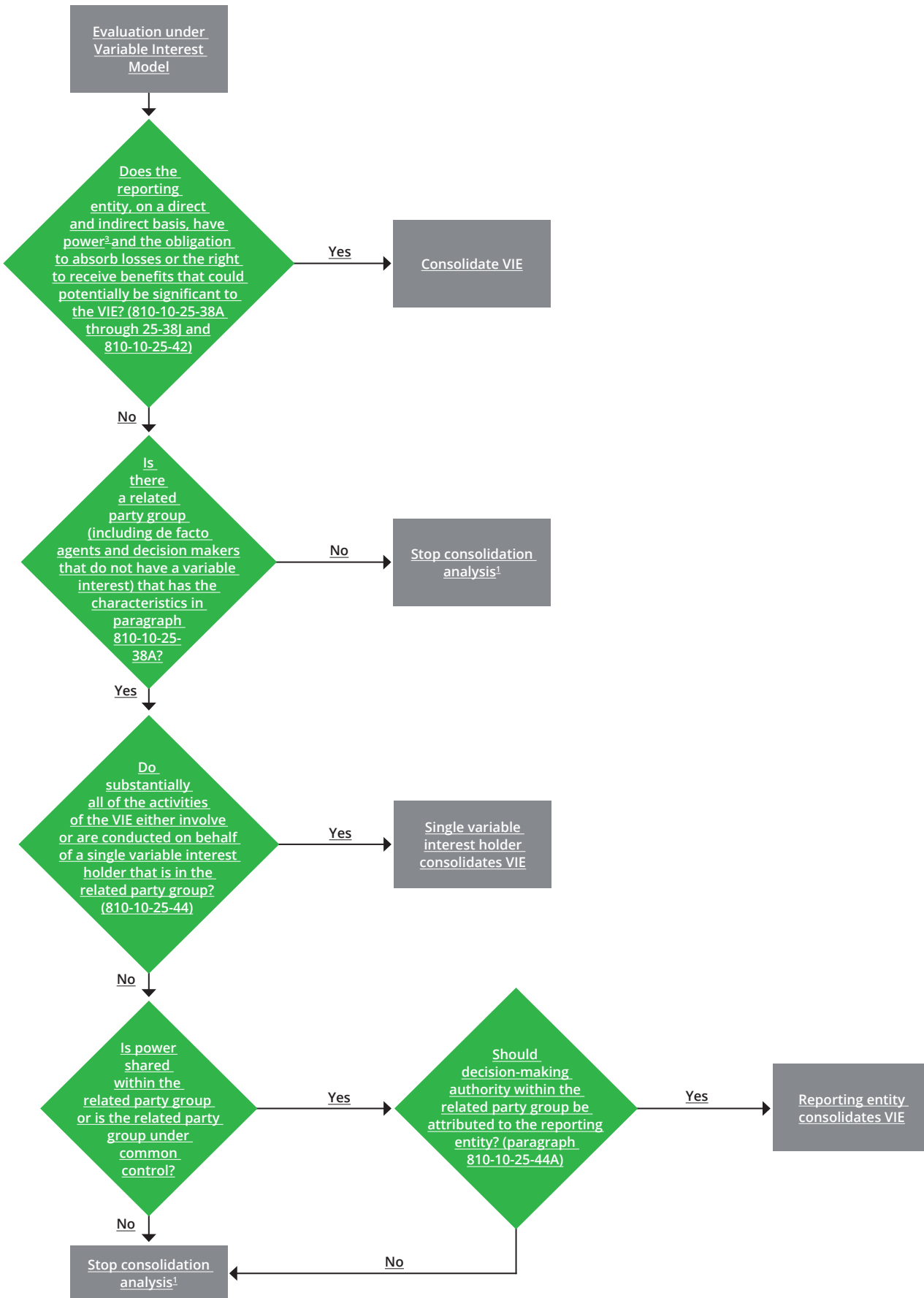
ASC 810-10 (continued)

- b. Tire Company, Inc. (Tire Co.): Tire Co. and the Company are under common control. Tire Co. was created by the owner to vertically integrate the supply chain for the Company's production of vehicles. Tire Co. produces tires for the Company's vehicles and sells a majority of those tires to the Company. The Company provides no design specifications for the tires, and many substitutes on the market could replace the tires that Tire Co. provides. The Company provides Tire Co. with management and other services (including, but not limited to, accounting, billing, and administrative duties) for which it charged a management fee of \$74,568 in 20XX. Car Co. purchased \$3,792,929 of tires during 20XX from Tire Co. Tire Co. has an outstanding loan in the amount of \$200,000 due to the Company that is unsecured and accrues interest at 6 percent. The loan is subordinated to all other debt, and no specific repayment terms exist.
- c. Both Engine Co. and Tire Co. have third-party debt, and both companies have their assets pledged as collateral for that debt. The owner of the Company, Engine Co., and Tire Co. has personally guaranteed the third-party debt of the Company, Engine Co., and Tire Co.
- d. In addition to the \$600,000 loan, the Company historically has been required to provide funds to Engine Co. at the request of the common owner. The Company believes that its maximum financial exposure to loss related to Engine Co. could equal all of Engine Co.'s liabilities. The book value of Engine Co.'s liabilities is \$2,459,127 as of December 31, 20XX.
- e. Other than the \$200,000 loan, the Company has never provided any other additional funding to Tire Co. and is not contractually obligated to do so. The Company believes that its maximum financial exposure related to Tire Co. is limited to the \$200,000 loan outstanding and any accrued interest as of December 31, 20XX.

Appendix C — Flowchart: Effect of Related Parties on the VIE Primary-Beneficiary Determination

The proposed ASU would amend the flowchart in ASC 810-10-05-6 (reproduced below), which illustrates considerations regarding the effect of related parties on the determination of the VIE's primary beneficiary.





³—Power is defined as the power to direct the activities of a VIE that most significantly impact the VIE's economic performance.

Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Services Department, please [register](http://www.deloitte.com/us/accounting/subscriptions) at www.deloitte.com/us/accounting/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Financial reporting.
- Tax accounting and provisions.
- Controllership perspectives.
- Financial reporting for taxes.
- Transactions and business events.
- Driving enterprise value.
- Governance, risk, and compliance.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. [Subscribe](#) to *Dbriefs* to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

DART and US GAAP Plus

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, IASB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*, and can also elect to receive *Technically Speaking*, a weekly publication that highlights recent additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.

In addition, be sure to visit [US GAAP Plus](#), our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and those of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee. Check it out today!

Heads Up is prepared by the National Office Accounting Services Department of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.