

November 2018

Accounting & Auditing Update

Related Party Consolidation Guidance Amended by the FASB

By Jonathan Zuckerman, CPA, Partner and John M. Haslbauer, CPA, Partner

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2018-17 *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*.

The Private Company Alternative

ASU 2018-17 allows a private company to make an accounting policy election to not apply the variable interest entity (VIE) guidance for certain arrangements between entities under common control when the reporting entity, the legal entity being evaluated for consolidation and the common control parent are not public business entities.

Decision-Making Fees

In addition, the FASB amended the extant guidance to require an entity to consider a decision maker's indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This provision is consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE.

For example, if a decision maker or service provider owns a 20 percent interest in a related party and that related party owns a 40 percent interest in the legal entity being evaluated, the decision maker's or service provider's indirect interest in the VIE held through the related party under common control should be considered the equivalent of an 8 percent direct interest for determining whether its fees are variable interests.

How We See It

The intent of ASU 2018-17 is to increase the consistency in the application of VIE related party guidance for common control arrangements. For private companies electing the private company accounting alternative, ASU 2018-17 will reduce cost and complexity in financial reporting as less entities will consolidate VIEs. The amendments for determining whether a decision-making fee is a variable interest require reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in GAAP).

Therefore, these amendments likely will result in more decision makers not having a variable interest through their decision-making arrangements. These amendments also will create alignment between determining whether a decision-making fee is a variable interest and determining whether a reporting entity within a related party group is the primary beneficiary of a VIE.

Effective Date

For private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

For public business entities, as defined, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, and interim periods within those years.

Early adoption is permitted.

The guidance in ASU 2018-17 should be applied retrospectively, with a cumulative effect adjustment to retained earnings as of the beginning of the earliest period presented.

Contact Us

If you have any questions about this new consolidation guidance — or any other accounting and auditing matters related to private or publicly-held companies — please contact either of the following partners or the partner in charge of your account:

Jonathan Zuckerman, CPA
Partner
JZuckerman@pkfod.com | 646.699.2842

John M. Haslbauer, CPA
Partner
JHaslbauer@pkfod.com | 646.699.2838

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*. In 2018, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by *Vault*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.