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Private companies provided with VIE alternatives for leases

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The Financial Accounting Standards Board (FASB) recently endorsed a proposal by the Private Company Council (PCC) to exempt private companies from the existing Variable Interest Entity (VIE) guidance for common control leasing arrangements. Common control leasing arrangements frequently arise when the owner of an operating business also owns real estate that is leased to the operating business.

Under the current VIE guidance, companies with a common control leasing arrangement are required to either consolidate the lessor or consider a departure from U.S. GAAP. Under this alternative, a private company lessee may elect to not apply the VIE guidance to the lessor when certain conditions are met.

As a result users of private company financial statements should find the statements easier to read and understand when this alternative presentation is elected.

Under this alternative reporting, a private company lessee may elect to not apply the VIE guidance to the lessor when all of the following conditions are met:

- * The private company lessee and lessor are under common control.
- * The private company lessee has a leasing arrangement with the lessor.
- * Substantially all activity between the entities is related to the leasing activity.
- * If the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company lessee, then the principal amount of the obligation at inception cannot exceed the value of the asset leased by the private company lessee from the lessor.

If a private company elects this new alternative, they will no longer be required to consolidate the lessor or consider a departure from U.S. GAAP. If elected, the alternative must be applied to all leasing arrangements meeting the above conditions.

Additionally, the following disclosures will be required if the alternative is elected:

- * The amount and key terms of liabilities recognized by the lessor entities that expose the private company lessees to potentially provide financial support to the lessors.
- * A qualitative description of circumstances not recognized in the financial statements of the lessor entities that expose the private company lessees to having to potentially provide financial support to the lessors

What Do You Need to Do Right Now?

Whenever an accounting change is enacted, there is a transition period. Right now, as a business owner, you have options:

- * As long as you have not issued your 2013 financial reporting, you may choose to adopt the new standard early and apply it to your current 2013 financial reporting.
- * You may choose not to adopt the new standard, since it is being offered as an alternative. This

would result in no changes to your accounting for VIEs from the way it is currently done.

* You may choose to adopt the new standard later, since it does not go into effect until annual periods beginning after December 15, 2014.

Consult your accountant with any questions or concerns related to this new update and explore your options.

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