

Case 21-7c

Mac Group & Cheese Fund

Mac Group is an investment management firm that invests in various real estate properties. In June 20X2, Mac Group launched a new fund, Cheese Fund, which is designed to invest in corporate office buildings. It has been determined that Cheese Fund is a variable interest entity.

Mac Group wholly owns and consolidates the fund manager (FM) and the general partner (GP) of Cheese Fund. In May 20X2, the GP and the FM entered into a management agreement to provide the FM with the ability to identify and recommend corporate office buildings in which Cheese Fund should invest. The management agreement gives the FM and the GP unilateral power to direct the most significant activities that have an impact on Cheese Fund's economic performance.

The FM receives a management fee, and the GP receives an incentive fee (collectively, the "decision-maker fees"). Management has concluded that the decision-maker fees are compensation for services provided and are at market and commensurate with the level of effort required to provide those services. In addition, the decision-maker fee arrangement includes terms and conditions that are customarily present in similar arrangements negotiated at arm's length. The decision-maker fees are not (1) guarantees, (2) obligations to fund operating losses, (3) payments associated with a written put option, or (4) any similar obligation that would protect an interest holder from suffering losses in Cheese Fund.

In August 20X2, Mac Group had excess cash and invested it in Cheese Fund. As a result, Mac Group holds a 6.4 percent pro rata equity interest in Cheese Fund. Neither the FM, the GP, nor any related party of Mac Group has an additional direct equity interest in Cheese Fund.

Required:

In consideration of the information presented above, answer the following questions.

1. Does Mac Group have a variable interest in Cheese Fund?
2. Are the decision-maker fees a variable interest?
3. Should Mac Group consolidate Cheese Fund?

Alternative Assumption

4. If Mac Group held a 40 percent pro rata equity interest in Cheese Fund, should Mac Group consolidate Cheese Fund?