AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
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July 26, 2016

Susan M. Cosper, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 23, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* [File Reference No. 2016-260]

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC is supportive of the proposed amendments in this ED. TIC also encourages the Board to accelerate the pace of the research project, *Applying Variable Interest Entity Guidance to Entities Under Common Control*, formally add it to the Board's technical agenda and issue a proposal to address the current diversity in practice regarding the consolidation of these entities.

SPECIFIC COMMENTS

Question 1: If a reporting entity is the single decision maker of a VIE, the amendments in this proposed Update would require that reporting entity to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties to determine whether it is the primary beneficiary of that VIE. This evaluation would include all related parties as defined in

paragraph 810-10-25-43, including those under common control with the single decision maker. Do you agree with this approach? If not, please explain why.

TIC agrees with this approach. The evaluation of all related parties as defined in paragraph 810-10-25-43, when interests are held directly and/or indirectly, will ensure that the application of this analysis is consistently applied and will help reduce situations under ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, where consolidation of an indirect interest in a related party entity under common control by the primary beneficiary does not provide decision-useful information to users of the financial statements.

Question 2: Would the proposed amendments adequately address stakeholders' concerns that, in certain situations involving entities under common control, the amendments in Update 2015-02 may require a single decision maker of a VIE to consolidate that VIE even if it has little to no direct variable interests in the VIE?

TIC believes the proposed ASU would address stakeholders' concerns and would significantly reduce the number of scenarios where consolidation would be required under ASU 2015-02.

However, TIC believes significant diversity in practice continues to exist in how nonpublic entities apply the guidance in Topic 810 regarding consolidation of variable interest entities under common control (other than common control leasing arrangements). TIC understands that, on April 12, 2016, the Private Company Council asked the FASB to add this additional project to its agenda and that the topic, *Applying Variable Interest Entity Guidance to Entities Under Common Control*, is now one of many ongoing FASB research projects. TIC strongly encourages the Board to complete outreach activities and develop one or more viable alternatives for exposure before the end of the calendar year, especially since the issues affect both public and nonpublic entities.

Question 3: Do you agree with the proposed transition requirements in paragraph 810-10-65-8? If not, what transition approach would be more appropriate?

TIC agrees. The proposed transition requirements in paragraph 810-10-65-8 appear to be reasonable and provide relevant and decision-useful information to users of financial statements. The transition guidance also provides a clear roadmap for preparers to guide them to the proper recognition, measurement and disclosure provisions based on their previous accounting choices (e.g., whether or not they had previously adopted ASU 2015-02) and whether consolidation v. deconsolidation would be required under the new standard.

Lastly, the requirement in paragraph 810-10-65-8(g), which disallows netting the cumulative effect adjustments related to the consolidation and deconsolidation of entities under the proposed standard, is proper and provides greater transparency to the user.

Question 4: 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.

Yes, TIC agrees with the transition disclosure requirements. TIC did not identify any other necessary disclosure requirements.

Question 5: Should the proposed amendments be effective immediately upon issuance of a final Update for all entities that already have adopted the amendments in Update 2015-02?

For all entities that have adopted the amendments in ASU 2015-02, the proposed amendments should be effective immediately since the proposed ASU is addressing a specific matter brought to the Board by concerned stakeholders. If the proposed ASU is not effective immediately, those entities that early adopted ASU 2015-02 could potentially be presenting financial information that does not provide decision-useful information to the users of those financial statements and incurring additional costs that would not be justifiable for preparers from a cost/benefit perspective. Allowing an immediate effective date would correct and reduce those concerns.

Question 6: Should entities that have not yet adopted the amendments in Update 2015-02 be required to adopt the amendments in this proposed Update at the same time they adopt the amendments in Update 2015-02?

For the same reasons addressed in Question 5, preparers should be required to adopt the proposed ASU and ASU 2015-02 at the same time in order to avoid unnecessary costs. Preparers could potentially avoid a situation where an entity consolidates an indirect interest in a related party under common control because the entity is required to consider those interests as direct interests in their entirety; and then, subsequent to the effective date of the proposed ASU, arrive at the conclusion that the entity shouldn't have been consolidated and must now be deconsolidated.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees