



August 4, 2017

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

Re: FASB June 22, 2017 Proposed Accounting Standards Update *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* [File Reference No. 2017-240]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 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 Proposed Accounting Standards Update, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the effort of the Board to streamline and simplify the guidance for variable interest entities (VIEs) currently included in FASB ASC 810, *Consolidation*. TIC believes the VIE guidance can be very complex and difficult to apply in practice, especially in situations where there are entities under common control, which is very common with private companies.

TIC also agrees with the proposal 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). TIC believes this is more in line with the spirit of these arrangements and would significantly reduce situations where decision makers that are agents, nonetheless, could be deemed the primary beneficiary of a VIE. TIC believes that the proposed additional disclosures would mitigate the risk of structuring to avoid the consolidation rules.

As it relates to the related party tiebreaker, TIC believes that following the issuance of ASU 2015-02, the related party tie-breaker test is applied less frequently, especially with private companies. Therefore, TIC agrees with the removal of this guidance for private entities.

TIC also has additional comments on the ED as outlined below.

SPECIFIC COMMENTS

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.*

Although TIC's primary focus is on issues related to private entities, TIC could see how PBEs could benefit from adopting this accounting alternative. However, TIC would not want a decision related to public business entities to delay the issuance of a final standard with an option for private companies being allowed to adopt this alternative as soon as possible as TIC believes this is a simplification and would result in an improvement to current GAAP.

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.*

As TIC expressed in our September 2016 meeting in Norwalk as well as at the consolidations roundtable in December 2016, TIC agrees that a private company should have an option (rather than a requirement) to not apply the VIE guidance to legal entities under common control. TIC members have noted that, in many cases, consolidated financial statements of entities under common control do not provide decision-useful information to the users and, banks and other third-party users will specifically ask for stand-alone financial statements of the reporting entity excluding entities under common control as they want to see the results of operations of the reporting entity only. In many cases, this results in financial statements with GAAP departures being issued today. And in cases where it may provide decision-useful information, a private company could still have the option to combine entities under common control.

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?*

TIC believes that the guidance in ASU 2014-07 should be replaced as this ED will continue to address the concerns of private companies currently applying the accounting alternative for leasing arrangements under common control.

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.*

TIC believes that the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI do provide enough information about a reporting entity's involvement with and exposure to a legal entity and we could not come up with any additional proposed disclosures that would provide decision-useful information to financial statement users.

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.*

TIC believes that these interests should be considered on a proportionate basis rather than being considered the equivalent of a direct interest in its entirety as that is more in the spirit of how these arrangements are typically set up and this would result in less situations where entities are required to consolidate and would be consistent with the economics associated with the related party interests.

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.*

TIC believes that in private company situations, when power is shared among related parties or when related parties are under common control, as a group, those entities should not be required to consolidate a VIE. TIC believes that the additional proposed required disclosures may mitigate any risks associated with not consolidating these entities.

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.*

TIC believes the factors in paragraph 810-10-25-44A are adequate for determining whether a reporting entity within a common control group may be the primary beneficiary of a VIE.

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.

TIC believes that following the issuance of ASU 2015-02, the related party tie-breaker test is not applied as frequently in practice for private companies, as noted earlier in this letter. In addition, if the common control exception for private companies is issued as proposed, we also think this will result in the related party tiebreaker seldom being applied in practice as the majority of private companies will elect not to apply the VIE guidance. Therefore, TIC believes the removal of the related party tiebreaker would be appropriate for private companies.

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?

TIC agrees with the proposed transition requirements in ASC 810-10-65-9.

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.

These transition requirements (including disclosures) are consistent with those provided in ASU 2016-17, which TIC believes are appropriate for initial adoption of this ASU.

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

TIC believes that since much of this ED is simplification from current GAAP, it should not take much time to adopt and we believe many private entities could benefit from being able to adopt the amendments as soon as possible. TIC also believes that early adoption should be permitted.

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

TIC believes that since this ED is primarily a simplification standard, the effective date should be the same for both public and private entities as it should not take very long to adopt and many private companies will welcome the change to the consolidation guidance where there are VIE entities under common control.

However, TIC is concerned that if public business entity stakeholders take issue with either the removal of the related party tiebreaker or expanding the accounting alternative related to entities under common control to public business entities, this could delay issuance. TIC hopes that the Board would not delay the issuance for private entities as TIC believes this is a welcome change and a simplification to GAAP.

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?*

TIC believes that the effective date and transition requirements in this ED are appropriate. Additionally, we believe that preparers wouldn't have any difficulty in justifying preferability in adopting the private company alternative as it would lead to a simplification in the consolidation model without reducing the quality of decision useful information to users.

ADDITIONAL COMMENT

TIC believes there may be opportunity for clarification or revision to Example 12 in the ED. Specifically, proposed ASC 810-10-55-205AX includes in the list of assumptions (item d) that third-party debt on each entity is personally guaranteed by the owner. A personal guarantee by an owner may be considered an implicit variable interest depending on the facts and circumstances. Based on the assumptions provided for Purse Co. in item g., TIC does not believe enough facts and circumstances have been provided to conclude whether the personal guarantee warrants further consideration or not. However, proposed ASC 810-10-55-205AY concludes that Car Co. has no variable interest (presumably implicit or explicit) in Purse Co.

One suggestion to address this issue is to eliminate the personal guarantee on Purse Co. debt from the assumptions listed in item d. Another suggestion is to add assumptions to item g that would allow one to conclude the personal guarantee is not an implicit variable interest (e.g., whether or not it was a condition of financing from the bank), what Purse Co.'s equity at risk is, etc. Perhaps another possible way to address this is to include in the example the basis for why this was not considered an implicit variable interest.

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, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees