



August 25, 2017

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Via Email to director@fasb.org

Re: File reference number 2017-240

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. We support the Board's efforts to improve related party guidance in all three areas addressed in this proposed Update.

Our responses to the questions for respondents are as follows.

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.

We believe that common control arrangements involving public business entities should not be excluded from the scope of the variable-interest entity (VIE) guidance, particularly when the reporting entity is a public business entity. As noted in paragraph 14 of the Basis of Conclusions, public business entities have arrangements with related parties that are generally formalized. That is, rights and obligations are generally explicitly stated in related party agreements, and the agreements are often subject to scrutiny and oversight by independent members of the board of directors. The circumstances that give rise to a need for a private company alternative for VIE guidance are rare in public business entities.

Question 2: Do you agree that a private company (reporting entity) should have an option not to apply VIE guidance to legal entities under common control when both the common control parent and the legal entity being evaluated for consolidation are not public business entities? If not, please explain why.

We agree that a reporting entity that is private company should be able to choose an accounting policy election to not apply VIE guidance to legal entities that are under common control when both the legal entity and the common control parent are private companies. We believe that the users of private company financial statements are often fully aware of common control arrangements and are better served by not consolidating VIEs, but rather by having disclosures surrounding private company's involvement and exposure in the VIEs. In addition, the identification and evaluation of implicit variable interests is highly subjective, leading to inconsistent application and significant diversity in the consolidation of and disclosures for VIEs.

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 proposed accounting alternative in the proposed amendments?

We do not believe that the current private company alternative for common control leasing arrangements should be retained. Instead, the proposed accounting alternative should address the concerns of private companies that currently apply the alternative for common control leasing arrangements. We are not aware of any situations in which a private company that is currently eligible for the common control leasing exception would not be able to apply the proposed accounting alternative.

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.

We believe that the proposed disclosure requirements provide adequate information about a reporting entity's involvement with and exposure to a legal entity that is under common control. However, because the term "common control" is not defined in the Codification, we suggest that, in addition to the proposed disclosures set forth in paragraph 810-10-50-2AG, a reporting entity should also disclose the facts and circumstances considered in determining that the reporting entity and legal entity are under common control.

We also recommend that implementation guidance should be provided on calculating reporting entity's maximum exposure to loss that is required to be disclosed in proposed paragraph 810-10-50-2AG(d). For example, should the maximum exposure to loss be calculated as the amount of the difference between the fair value of the legal entity's assets and the carrying value of its liabilities that the reporting entity could be exposed to, or should it be based on the net book

value? Also, should entities consider other resources that may be available to the legal entity to reduce the exposure of loss to the reporting entity?

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.

Yes, we believe that for purposes of determining whether a decision maker has other interests that would absorb more than an insignificant amount of expected losses or would receive more than an insignificant amount of expected residual returns, indirect interests held through related parties should be considered on a proportionate basis.

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.

Yes, we believe that reporting entities should determine whether a controlling financial interest exists when 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. However, as discussed in our responses to Questions 7 and 8, we do not believe that the proposed changes to paragraphs 810-10-25-44 and 25-44A will result in better consolidation conclusions in many instances and that they might instead result in unintended consequences in other instances as well as greater diversity in application.

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.

We do not believe that the factors in paragraph 810-10-25-44A on a standalone basis provide adequate guidance for determining whether a reporting entity within a common control group may be the primary beneficiary of a VIE. We believe that determination of whether the decision-making authority of related parties should be attributed to a reporting entity lacks a clearly defined principle as to what financial reporting objective is intended through such evaluation. Without an underlying principle, it is unclear how consideration of the factors in paragraph 810-10-25-44A alone would achieve the Board's intended objective or whether the factors are sufficient in making this determination.

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.

We have observed that the “related party tie-breaker” test in current GAAP often results in appropriate consolidation results based on the related party that is most closely associated with the VIE. However, we have also observed that there are instances in which application of the “related party tie-breaker” test in current GAAP results in a forced consolidation by a reporting entity that does not result in appropriate financial reporting. This leads us to conclude that the factors that are listed in current paragraph 810-19-25-44 are generally appropriate, but that there are situations when application of the “related party tie-breaker” test is not appropriate and other factors should be considered.

Paragraphs 810-10-25-44 and 25-44A in the proposed Update provide seemingly different considerations for determining whether a reporting entity in a related party group should be the primary beneficiary when that reporting entity does not have both characteristics of a controlling financial interest under paragraph 810-10-25-38A. Paragraph 810-10-25-44 focuses solely on whether substantially all of the activities of the VIE either involve or are conducted on behalf of the reporting entity. Paragraph 810-10-25-44A focuses on whether the decision-making authority of related parties should be attributed to the reporting entity based on a set of factors. Neither the Basis for Conclusion nor the proposed Codification amendments have articulated a principle for determining why or when the decision-making authority should be attributed to a single member of a related party group. It is therefore unclear how the factors in paragraph 810-10-25-44A will achieve the objective of determining whether the decision-making authority should be attributed to a related party within the related party group. Without further guidance, we believe that the proposed changes will still result in unintended consequences.

In addition, we believe that the decision-making authority of related parties should be attributed to a reporting entity within the related party group if those related parties are acting as an agent on behalf of the reporting entity, and that any factors that should be considered should relate to that underlying principle. When power is shared among related parties that are not under common control and each of the related parties with power has other interests that would absorb more than an insignificant amount of expected losses and receive more than an insignificant amount of expected residual returns, we believe that there should be a presumption that none of the related parties is acting as an agent on behalf of the other. When evaluating factors to consider when determining whether other related parties are acting as an agent on behalf of the reporting entity, it might be useful to include a presumption that if (a) substantially all of the activities of the VIE either involve or are conducted on behalf of the reporting entity, or (b) the reporting entity absorbs a majority of the expected losses or receives a majority of the expected residual returns, other related parties are considered to be acting as an agent on behalf of the reporting entity, and the decision-making authority of other related parties should be attributed to the reporting entity.

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?

We agree with the transition requirements in paragraph 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.

We believe that the transition disclosures specified in the proposed Update are sufficient.

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

ASU 2015-02 provided entities other than public business entities with an additional year to adopt its changes. Because the proposed changes to the VIE related party guidance in this proposed Update would amend the VIE related party guidance that was also changed by ASU 2015-02, we believe that entities other than public business entities should be provided an additional year to adopt these changes.

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*?

Yes. We believe that the reasons stated in ASU 2016-03, which allowed private companies to choose a private company accounting alternative without assessing preferability, remain valid and that the effective date of the private company accounting alternative in the proposed Update should therefore be consistent with the guidance in ASU 2016-03.

If you have any questions about our response, or wish to further discuss our comments, please contact Rahul Gupta, Partner, at 312.602.8084 or rahul.gupta@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP