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August 29, 2017

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Targeted Improvements to Related Party Guidance for Variable Interest Entities* (File Reference No. 2017-240)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*.

We support the Board's objective to improve US GAAP by reducing the cost and complexity of applying the variable interest entity (VIE) model to common control arrangements.

VIEs are used in common control structures for a variety of business, tax and other reasons. Discerning the substance of these arrangements can be a challenge. However, the challenges inherent in evaluating common control arrangements extend beyond those involving VIEs. Rather than limiting its consideration of common control arrangements to consolidation or to consolidation by private companies, we believe the Board should comprehensively address in a separate agenda project the accounting for arrangements involving parties under common control. We recommend that the scope of that potential project include defining common control and establishing principles that all companies would apply when evaluating the accounting for common control arrangements.

Reporting common control transactions is complex and diverse because US GAAP neither defines common control nor establishes a consistent principle about whether the common control attribute is relevant to the accounting for a particular arrangement. Instead, the guidance on common control arrangements has been developed on an ad hoc basis. For example, the voting interest consolidation model generally respects legal-entity distinctions within an organization whereas the VIE consolidation model approaches those distinctions with skepticism and often overrides them. These differences exist without apparent consideration of how common control should affect the boundaries of the reporting entity in direct response to the needs of financial statement users. In addition, the guidance about how to measure some assets when transferred differs depending on whether the entities are under common control but the guidance about how to measure assets when leased does not. These inconsistencies exist because US GAAP includes guidance only for specific types of transactions and arrangements involving entities under common control, rather than a principled framework through which all arrangements involving entities under common control can be consistently evaluated.

If the Board decides to move forward with its proposal, our letter provides suggestions for the Board to consider.

Targeted Improvements to the Variable Interest and Primary Beneficiary Guidance

We support the proposal to require a reporting entity to consider indirect interests on a proportionate basis when it determines whether a fee paid to a decision maker is a variable interest. We believe this proposal would simplify the guidance without compromising financial reporting.

However, we believe the Board should retain the VIE related party tie-breaker for certain shared power and common control arrangements until it addresses common control arrangements more holistically. The VIE related party tie-breaker guidance was developed in direct response to major business failures in which the accounting and financial reporting for arrangements involving related parties were prominently implicated in the lack of investor awareness of the risks involved. While occasionally there may be situations in which 'forced consolidation' seems counterintuitive, we believe the current guidance generally has been effective in mitigating the risk that a variable interest holder avoids consolidation by arbitrary allocation of variable interests that collectively give rise to a primary beneficiary interest between itself and its related parties. The underlying objective of the VIE model is to identify entities for which true control is separated from nominal ownership of voting interests. The guidance was designed, in part, to prevent related party relationships from obscuring the underlying design of those structures. If the Board believes that the current VIE related party tie-breaker guidance repeatedly results in consolidation conclusions that are inconsistent with its intent, we believe that more likely may indicate that there is a flaw in how VIEs are defined. Because VIEs lack the usual characteristics of equity ownership and control, and often convey a controlling financial interest in unconventional ways, there has always been a higher hurdle for determining that no party should consolidate them.

We believe that the proposed changes would be difficult to apply and would result in few companies identifying themselves as the primary beneficiary. Importantly, we believe the changes could undo a crucial element of the existing solution to the financial reporting concerns raised by the business failures that originally led to the VIE guidance. We suggest that the Board clarify the guiding principle for consolidation in these circumstances and provide additional guidance about how to weigh the specific factors to consider in applying the principle. We believe the significance of the VIE's activities to each entity in the related party group and the magnitude of each entity's exposure to the variability associated with the economic performance of the VIE are most important to financial statement users when there is no clear decision maker or the decision maker does not have a variable interest. We also believe those two factors more clearly indicate when power may be held on behalf of another member of the related party group, can be more reliably evaluated, and would result in consolidation conclusions that are consistent with the Board's objectives for identifying a primary beneficiary. For example, in related party shared power and common control relationships, exposure by one of the variable interest holders to a majority of the economic variability coupled with significant common activities likely may indicate that the entity is operated for the benefit of that party, even if substantially all of the entity's activities do not involve and are not conducted on its behalf.

Private Company Accounting Alternative

Consolidation is fundamental to financial reporting under US GAAP. Unlike other accounting standards that relate to individual assets, liabilities or classes of transactions, consolidation requirements dictate what the financial reporting entity is and, therefore, have a pervasive effect on reported assets, liabilities, revenues, expenses and disclosures. While we acknowledge the complexities that private companies face in accounting for common control arrangements, the proposed alternative creates a different conceptual basis for preparing financial statements for private and public companies that is difficult to reconcile with the goal of comparability in financial reporting. In addition, it is not clear how or why the Board

concluded that the information needs of private company financial statement users are different from the needs of public company financial statement users in this area, or how the proposed alternative would 'improve user reliance' as the proposal suggests.

As previously indicated, we recommend that the Board undertake a comprehensive project to holistically address the accounting for common control arrangements for both private and public companies.

Our specific recommendations and responses to selected Questions for Respondents are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Angela Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to Selected Questions for Respondents

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.

No. We support the Board's objective to improve US GAAP by reducing the cost and complexity of applying the VIE model to common control arrangements. However, we recommend that the Board comprehensively address the accounting for arrangements involving parties under common control by all entities through a separate agenda project rather than by excluding those arrangements from the scope of the VIE guidance.

Until the Board undertakes such a project, we believe the VIE related party tie-breaker for certain shared power and common control arrangements should be retained. While occasionally there may be situations in which forced consolidation seems counterintuitive, we believe the current guidance generally is effective at mitigating the risk that a variable interest holder avoids consolidation by arbitrary allocation of variable interests that collectively give rise to a primary beneficiary interest between itself and its related parties. If the Board believes that the current tie-breaker guidance repeatedly results in consolidation conclusions that are inconsistent with its intent, we believe that more likely may indicate that there is a flaw in how VIEs are defined. Because VIEs lack the usual characteristics of equity ownership and control, and often convey a controlling financial interest in unconventional ways, there has always been a higher hurdle for determining that no party should consolidate them.

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.

While we acknowledge the complexities that private companies face in accounting for common control arrangements, the proposed alternative creates a different conceptual basis for preparing financial statements for private and public companies that is difficult to reconcile with the goal of comparability in financial reporting. It is not clear how or why the Board concluded that the information needs of private company financial statement users are different from the information needs of public company financial statement users in this area, or how the proposed alternative would improve user reliance, as the proposal suggests.

As an alternative, we recommend that the Board undertake a comprehensive project to holistically address the accounting for common control arrangements for private and public companies. However, if the Board moves forward with providing an exemption for private companies, we suggest that the exemption be an election, not a requirement, because some private companies may have plans to become public and wish to voluntarily follow the accounting requirements for public companies.

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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?

As indicated in our response to Question 2, we prefer for the Board to undertake a comprehensive project to holistically address the accounting for common control arrangements for private and public companies. In the meantime, we recommend that the Board retain the private company accounting alternative for common control leasing arrangements provided by ASU 2014-07.

However, if the Board moves forward with its broader common control proposal, we believe it should supersede the alternative provided by ASU 2014-07. Providing two separate private company exemptions for different types of common control arrangements adds unnecessary complexity. While the scope of ASU 2014-07 is slightly broader than the scope of the proposed common control exemption (e.g. private companies with a public business entity parent or public business entity lessor can apply the alternative in ASU 2014-07), we believe that most entities currently using the alternative will qualify for the broader common control exemption.

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.

Yes. We believe the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI would provide adequate information about a reporting entity's involvement with and exposure to a legal 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 indirect interests held through related parties that are under common control with a decision maker or service provider should be considered on a proportionate basis when determining whether a decision-making fee is a variable interest in a VIE.

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We believe considering these interests on a proportionate basis would address concerns about situations involving related parties under common control in which a single decision maker would be required to consolidate a VIE even if it has little or no direct economic interest. In addition, we believe this proposed change would simplify the guidance without compromising financial reporting.

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.

We believe that a primary beneficiary should continue to be identified 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 individually do not.

While occasionally there may be situations in which forced consolidation seems counterintuitive, we believe the current guidance generally is effective at mitigating the risk that a variable interest holder avoids consolidation by arbitrary allocation of variable interests that collectively give rise to a primary beneficiary interest between itself and its related parties. If the Board believes that the current VIE related party tie-breaker guidance repeatedly results in consolidation conclusions that are inconsistent with its intent, we believe that more likely may indicate that there is a flaw in how VIEs are defined. Because VIEs lack the usual characteristics of equity ownership and control, and often convey a controlling financial interest in unconventional ways, there has always been a higher hurdle for determining that no party should consolidate them.

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.

No. While we believe the indicators in paragraph 810-10-25-44A (which are similar to the current tie-breaker considerations) are adequate to identify which party must consolidate under US GAAP, we do not believe they are adequate to identify whether decision-making authority should be attributed to a single party (or no party) when there is no requirement to break a tie. We believe the proposal likely would result in few companies identifying themselves as the primary beneficiary because the qualitative aspects of factors (a) and (c) may counter the analysis of (b) and (d), leaving the entities within the group to conclude decision-making authority should not be attributed to a single party. Furthermore, it is not clear what guiding principle an entity should apply to determine whether a controlling financial interest exists in that situation.

We suggest that the Board clarify the guiding principle for consolidation in these circumstances and provide additional guidance about how to weigh the specific factors considered in applying the principle. Specifically, we believe the significance of the VIE's activities to each entity in the related party group and the magnitude of each entity's exposure to the variability associated with the economic performance of the VIE are most important to financial statement users when there is no clear decision maker or the decision maker does not have a variable interest. We also believe that those two factors more clearly indicate when power may be held on behalf of another member of the related party group, can be more reliably evaluated, and would result in consolidation conclusions that are consistent with the Board's objectives for identifying a primary beneficiary. For example, in related party shared power and common control relationships, exposure by one of the variable interest holders to a majority of the economic variability coupled with significant common activities likely may indicate that the entity is operated for the benefit of that party, even if substantially all of the entity's activities do not involve and are not conducted on its behalf.

We also encourage the Board to add at least two examples to the guidance, to illustrate how the analysis of the proposed indicators would and would not lead to consolidation within a group.

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.

While occasionally there may be situations in which forced consolidation seems counterintuitive, we believe the current guidance generally is effective at mitigating the risk that a variable interest holder avoids consolidation by arbitrary allocation of variable interests that collectively give rise to a primary beneficiary interest between itself and its related parties. Because VIEs lack the usual characteristics of equity ownership and control, and often convey a controlling financial interest in unconventional ways, there has always been a higher hurdle for determining that no party should consolidate them.

We do not believe the proposed guidance would adequately address the risk that consolidation outcomes could be manipulated by or within common control groups. While we believe the proposed indicators are adequate to identify which party must consolidate under US GAAP, we do not believe they are adequate to identify whether decision-making authority should be attributed to a single party (or no party) when there is no requirement to break a tie. We believe the proposed guidance likely would result in few companies identifying themselves as the primary beneficiary. If the Board believes that the current tie-breaker guidance repeatedly results in consolidation conclusions that are inconsistent with its intent, we believe that more likely may indicate that there is a flaw in how VIEs are defined. That scoping decision, which separates typical voting interest entities from more unconventional entities that require special analysis and attention, has been in place virtually unchanged for almost 15 years. Rather than eliminate the requirement to identify a primary beneficiary for VIEs in these situations, it may be better to reconsider whether VIEs are appropriately defined.

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?

No. We believe the proposed transition requirements would place an unnecessary burden on entities that are adopting ASU 2015-02 for the first time in calendar 2017, as they would be required to adopt that ASU and the proposal at the same date and using the same transition method.

We believe the Board should establish a single effective date on which entities would adopt the proposal (i.e. regardless of when an entity adopted or will adopt ASU 2015-02) and require retrospective application of the proposal to the first period in which ASU 2015-02 is applied (with early adoption permitted).

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.

Yes. We believe that the transition disclosures are appropriate.

Question 12:

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

No. We believe that the Board should provide an optional deferred effective date for private companies.

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 the effective date should be consistent with the effective date of the elections under previously-issued PCC standards.

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