

August 31, 2017

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: 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:

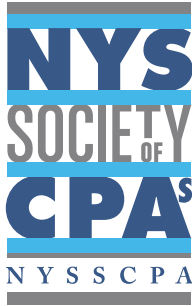
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Margaret A. Wood, Chair of the Financial Accounting Standards Committee, at (201) 401-7844, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Harold L. Deiters III
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED ACCOUNTING STANDARDS UPDATE—*CONSOLIDATION (TOPIC 810):
TARGETED IMPROVEMENTS TO RELATED PARTY GUIDANCE FOR VARIABLE
INTEREST ENTITIES***

(File Reference No. 2017-240)

August 31, 2017

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update—*Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

(File Reference No. 2017-240)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update—*Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities* (Proposed Update).

In general, we agree with the objective of the Proposed Update, which is to simplify and reduce costs in accounting for variable interest entities (VIEs) by private companies. We also believe the proposed guidance could be enhanced.

Proposed Paragraph 810-10-15-17AD requires consolidation of a VIE when a parent has a controlling interest in a legal entity collectively through its commonly controlled entities, but does not address combined financial statements where there is no parent. Many private companies prepare combined financial statements. Paragraph 810-10-55-1B describes circumstances where combined financial statements are desirable:

To justify the preparation of consolidated financial statements, the controlling financial interest shall rest directly or indirectly in one of the entities included in the consolidation. There are circumstances, however, in which combined financial statements (as distinguished from consolidated financial statements) of commonly controlled entities are likely to be more meaningful than their separate financial statements. For example, combined financial statements would be useful if one individual owns a controlling financial interest in several entities that are related in their operations. Combined financial statements might also be used to present the financial position and results of operations of entities under common management.

We recommend that VIEs be included in combined financial statements as a when the component entities collectively have controlling interest. Specifically including combined financial statements is consistent with the intent while clarifying the application of the Proposed Update.

We do note, however, that because there is no guidance that requires combination, a reporting entity could exclude related or commonly controlled component entities from the combined

group so as to avoid consolidation. The Board may wish to consider the implications of this matter.

Specific Comments

We have the following responses to questions posed in the Proposed Update.

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.

Response: We agree that the guidance in the Proposed Update should be limited to private companies. However, we are concerned that the proliferation of private company alternatives will create onerous accounting issues in retrospectively applying accounting principles for companies wishing to go public. This situation will only become more complex over time. Accordingly, we recommend that the Board adopt a project addressing the accounting circumstances faced by companies going public. One approach would be to determine that the decision to go public is a triggering event that requires the prospective application of those accounting principles applicable only to public companies. However, this would require the SEC to agree with this treatment.

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.

Response: We agree.

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?

Response: Assuming this Proposed Update is issued, the current accounting alternative for private company leasing arrangements under common control provided under Update 2014-07 should be replaced by the proposed broader private company alternative. This would simplify the accounting guidance.

We are not aware of any existing leasing arrangements that are eligible to be accounted for using the current alternative which would not be captured by the broader 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.

Response: We agree with proposed disclosures, but believe they could be enhanced by adding the following, where applicable:

- whether the reporting entity was involved in establishing the VIE
- the objective of establishing the VIE
- whether the equity of the legal entity is adequate to finance its operations without subordinated support
- the variable interests involved

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.

Response: We agree that 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.

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.

Response: Yes. And we note that it is possible that no reporting entity under common control will consolidate a VIE. For example, one member of a controlled group may receive the benefits from the VIE while another, such as the ultimate owner, may be exposed to losses by guaranteeing liabilities incurred or debt owed by the VIE.

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.

Response: We agree, the factors in paragraph 810-10-25-44A are adequate.

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.

Response: We agree that the factors in paragraph 810-10-25-44 adequately determine whether a reporting entity within a common control group may be the primary beneficiary of a VIE. The limitation of the guidance to stand alone financial statements would eliminate any confusion arising from consideration of combined financial statements.

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?

Response: We agree with the proposed 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.

Response: We agree that a reporting entity should be required to provide the transition disclosures.

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

Response: We believe that reporting entities may need up to two years to implement the Proposed Update. The Proposed Update is fairly complex and may require research and analysis of all existing common control arrangements.

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

Response: As discussed in our response to Question 1, we believe that the guidance in the Proposed Update should be limited to 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?

Response: Reporting entities may need time to consider the consolidation issues presented in the Proposed Update. Immediate implementation may not be practicable. Accordingly, we recommend that the Board grant a two year transition period.