

September 5, 2017

Technical Director
Financial Accounting Standards Board
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Via e-mail – director@fasb.org

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

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We support the efforts of the Financial Accounting Standards Board (“Board”) to simplify the accounting for variable interest entities (“VIE”) in situations involving related parties. From our experience, the accounting for VIEs in situations involving related parties is complex and costly for preparers, especially private companies, and does not provide significant benefits to users of the financial statements.

The most significant element of the proposed Update is to provide relief to private companies when the reporting entity and potential VIE are under common control. We understand the Board considered providing additional guidance on the definition of common control; however, it was determined that given the potentially broad applications, providing additional clarity on the definition common control was outside of the scope of this proposed Update. Determining whether entities are under common control can be complex, especially for private companies, as ownership structures are often driven by tax planning, estate planning or other strategies. This complexity has resulted in diversity in practice in determining whether entities are under common control. Given this, we recommend the Board consider adding a project to its agenda to provide additional clarity on what constitutes common control.

Following, please find our responses to the specific Questions for Respondents in the proposed Update.

General

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 1: No. We agree with the amendments in the proposed Update and believe that the scope exception to the VIE guidance should be limited to private companies. In our experience working with both private companies and public business entities, there are differences in the

needs of financial statement users, the most significant of which is the greater access to management afforded to private company financial statement users. This access allows financial statement users to get information directly from management about relationships with VIE's and other entities under common control. On the other hand, users of financial statements of public business entities generally do not have access to management and are more likely to rely on the entity's financial statements to get the information needed for decision making purposes.

Private Company Alternative

We support the Board's objective to provide additional relief to private companies when applying the VIE guidance to entities under common control, beyond the current accounting alternative for private company leasing arrangements. However, we do not believe a private company should be excluded from applying the proposed alternative solely because the common control parent is a public business entity. In the Basis for Conclusions, the Board stated that the reason the proposed private company alternative would not be available when the common control parent is a public business entity was due to the fact that when the common control parent is a public business entity, the common control group would be more likely to have formal contractual arrangements. We do not believe the existence of formal contractual arrangements should be a criteria for determining whether or not a private entity can apply the accounting alternative. Rather, we believe that the needs of the financial statement users should be the determining factor in whether or not an entity can apply the accounting alternative. From our experience working with private companies in common control situations, the needs of the users of a private company's standalone financial statements are generally consistent whether the common control parent is a public business entity or not.

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 2: As noted above, we agree that a private company (reporting entity) should have an option not to apply VIE guidance to legal entities under common control. However, we do not believe that private companies should be restricted from applying this alternative in situations where the common control parent is a public business entity. We do not believe the needs of the users of a private company's stand-alone financial statements change when the common control parent is a public business entity; accordingly, we do not believe private companies should be prevented from applying this alternative solely because the common control parent is a public business entity.

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 3: We believe the current accounting alternative for private company leasing arrangements under common control should be retained if the scope of the proposed amendments is approved as proposed. If the current accounting alternative is replaced, there may be situations where entities have applied the leasing accounting alternative that would no longer be eligible to apply the new alternative because the common control parent is a public business entity. We believe that requiring entities that had previously adopted the existing private company alternative to consolidate the leasing entity solely because the common control parent is a public business entity would not be consistent with the Board's goal of simplification. If the scope of the proposed amendments is expanded to remove the prohibition on adopting the alternative when the common control parent is a public business entity, we believe the existing leasing alternative can be replaced.

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 4: We agree the proposed disclosure requirements provide adequate information about a reporting entity's involvement with and exposure to a legal entity. We did not identify any additional disclosures that we believe should be required.

Decision-Making Fees

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 5: We agree 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 if the decision making fee is a variable interest in a VIE.

VIE Related Party Guidance for Parties under Common Control

We agree with the Board's objective to improve the guidance for accounting for related parties by eliminating the requirement that a member of the related party group consolidate a VIE if power is shared among members of the group. As the Board noted in the Basis for Conclusions, requiring an entity to consolidate a VIE when that entity does not clearly meet the definition of a primary beneficiary often results in financial statements that do not provide decision useful information to the users of the financial statements. Given this, we do not believe there should be forced consolidation when power is shared among related parties.

We acknowledge that when power is shared among related parties, it opens up the possibility of structuring transactions to achieve a desired accounting result. We agree with the Board that additional guidance is needed to prevent the potential structuring of transactions and that the proposed guidance in paragraphs 810-10-25-44 through 25-44B is appropriate to prevent this type of structuring.

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 6: Yes, we agree that a reporting entity should 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

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 7: Yes, we believe the factors in paragraph 810-10-24-44A 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.

Response 8: The “related party tie-breaker” test currently in GAAP does not always result in appropriate consolidation results because it can result in forced consolidation that may not occur if the parties were not related. We believe the proposed amendments in paragraphs 810-10-25-44 through 25-44B would result in appropriate consolidation results and have not identified any unintended consequences that would result in conclusions that are inconsistent with the economics of a related party arrangement.

Transition and Effective Date

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 9: Yes, 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 10: Yes, we agree a reporting entity should be required to provide the transition disclosures specified in this proposed update. We do not believe any other disclosures should be required.

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

Response 11: We do not believe the time necessary to implement the provisions of the proposed Update will be significant.

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 12: Because the amendments are a simplification, we do not believe nonpublic companies will need additional time to implement the standard. In addition, we believe early adoption should be permitted upon issuance of the new standard.

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 13: Yes, we believe the effective date of the private company accounting alternative should be consistent with the amendments in ASU 2016-03.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plantemoran.com or at (248) 223-3745.

Very truly yours,

PLANTE & MORAN, PLLC