



September 5, 2017

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

File Reference No. 2017-240

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Targeted Improvements to Related Party Guidance for Variable Interest Entities (Topic 810)*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

In general, we are supportive of the Board’s proposed changes, as it will improve Topic 810, *Consolidation*, by streamlining and simplifying the guidance relating to variable interest entities that today is overly complex and inconsistently applied.

We have provided our responses to certain questions raised in the proposed ASU below.

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 do not believe all common control arrangements should be excluded from the scope of VIE guidance. We believe only private companies should be afforded the option to be excluded from the scope of VIE guidance. Users of private company financial statements typically include owners and lenders who generally have access to more information about a company beyond that company’s financial statements. Accordingly, private company financial statement users are usually in a better position than users of public business entity financial statements to evaluate related party transactions or transactions between entities under common control, and the impact of those transactions on an entity’s financial position and results of operations. For users of public business entity financial statements, application of the VIE guidance continues to provide valuable information, not otherwise available, regarding an entity’s involvement with entities under common control that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk.

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: For the reason expressed in our response to Question 1, we agree that private companies should have the option to not apply VIE guidance to legal 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?

Response: We believe that the guidance in the proposed Update should replace the guidance in Update 2014-07. We do not believe there should be multiple frameworks for private companies to evaluate legal entities under common control. We believe the proposed accounting alternative would continue to address the concerns of private companies that have adopted the guidance in Update 2014-07, as the proposed accounting alternative would continue to allow private companies operating under common control lease arrangements to be excluded from applying the VIE guidance. We are not aware of existing lease arrangements eligible for the current alternative that the proposed guidance would not capture.

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 believe that the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI provide adequate information to users of private company financial statements 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.

Response: We agree that when determining whether a decision-making fee is a variable interest, the reporting entity should consider indirect interest held through related parties that are under common control with it 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: We agree that if the private company alternative is not elected by a private entity, the 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. We believe it is important for the Board to provide guidance addressing those situations in which power is shared among related parties or under a common control group where individually those entities do not have a controlling financial interest. We believe many private entities will elect the private company alternative to not apply the VIE guidance, and where required by loan requirements, choose to combine select reporting entities based on their individual facts and circumstances. However, for those private entities not electing the private company alternative, this analysis is important to ensure the consideration of shared power at the reporting entity level is reflective of the underlying economics of the VIE on the common control group.

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 believe the factors included in paragraph 810-10-25-44A are adequate and provide clarity and simplification in the application of professional judgment around the determination of the primary beneficiary of VIE within the common control 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.

Response: We are not aware of any unintended consequences of applying the proposed amendments, and that the proposal should reduce structuring concerns in those situations where a private entity did not elect the proposed private company alternative.

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 believe the transition requirements should be different for public business entities and other than public business entities. Please see our response to Question 12.

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 a reporting entity should provide the transition disclosure specified in the proposed Update and no other disclosures are necessary.

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: We believe private reporting entities may need additional time to evaluate adopting the accounting alternative outlined in issue 1, and requiring adoption of issue 1 at the same time ASU 2015-02 is or was adopted may not provide those entities sufficient time. As drafted, the proposed Update would require private companies to adopt issue 1 concurrently with issue 2 and 3. However, private companies may need additional time to consider what impact, if any, adoption of issue 1 may have on compliance with loan covenants or other agreements and accordingly, may need to amend these agreements prior to adoption.

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: We do not believe the private company accounting alternative effective date should be the same as that provided in ASU 2016-03. We believe a private company should be allowed additional time to consider the adoption of issue 1, if necessary, and as such, the effective date should be extended beyond that of issues 2 and 3 for private companies. Notwithstanding that, we believe some private companies may wish to early adopt issue 1 prior to its effective date, and accordingly, the proposed Update should allow private companies to do so if they elect the accounting alternative.

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We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Ryan Brady, CPA
Chair, Accounting Principles Committee

Brian Kot, CPA
Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
 ORGANIZATION AND OPERATING PROCEDURES
 2017-2018

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Adam Karac, CPA	Deloitte LLP
Timothy Bellazzini, CPA	Sikich LLP
Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA (Chair)	Grant Thornton LLP
Jason Eaves, CPA	Crowe Horwath LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA	Crowe Horwath LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Reid Mitchell, CPA	Wipfli LLP
Matthew Mitzen, CPA	Marcum LLP
Elizabeth Prossnitz, CPA	BDO USA LLP

Medium: (more than 40 professionals)

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Michael Kidd, CPA	Mowery & Schoenfeld LLC
Danielle Martin, CPA	Porte Brown LLC
Iryna Prokhorov, CPA	Mueller & Company, LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

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Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA (Vice Chair)	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC

Educators:

John Hepp, CPA	University of Illinois at Urbana-Champaign
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Industry:

Rose Cammarata, CPA	Mattersight Corp.
Jason Crider, CPA	Molto Properties LLC
Ashlee Earl, CPA	Consultant
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Lawrence Mocadlo, CPA	Ingersoll Machine Tools
Joshua Shenton, CPA	Northern Trust Corp.
Richard Tarapchak, CPA	Reynolds Group Holdings

Staff Representative:

Rafael Wiesenberg, CPA

Illinois CPA Society