



September 5, 2017

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

Re: File Reference No. 2017-240

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities* (the "ED").

We support the proposed amendments to Topic 810, subject to resolving the concern discussed in the next paragraph. Generally, we are reluctant to endorse proposals that permit private companies to apply financial accounting standards different from those that govern public business entities. However, in this instance, we believe the proposed private company alternative, which provides VIE consolidation relief to a reporting entity having involvement with common control parties, is an appropriate one in the circumstances. We also support the proposed changes that require a reporting entity to determine whether, in certain circumstances, substantially all of the activities of a VIE either involve or are conducted on behalf of a member of a related party group.

We endorse the Board's intention to replace the current "common control-party tie breaker" test with an approach that allows for more judgment when evaluating whether decision-making authority should be attributed to an entity within the common control group. However, we have reservations about whether the guidance, as proposed, will prove operational when applied in practice. Although we support the objective of this element of the proposal, we are concerned that, absent additional implementation guidance or the articulation of a broader underlying decision principle, the proposed guidance may not result in consistent consolidation conclusions being reached in similar circumstances. As discussed in our response to Question 7, we offer two alternatives to the proposed approach. We believe that each will be simpler to apply in practice, while also being responsive to the Board's concerns about retaining a robust consolidation model from which to evaluate structured variable interest "parking" arrangements involving intermediate-level common control parties.

The appendix to this letter contains our detailed responses to the Questions for Respondents in the ED, and includes additional observations and in some cases expands on these comments.



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If you have any questions, please contact David Schmid at (973) 236-7247 or John Bishop at (973) 236-4420.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



Appendix

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.

No. As a general principle, we are reluctant to endorse proposals that permit private companies to apply financial accounting standards different from those for public business entities. However, in this instance, we do not object to the proposed VIE scope exception for private companies, largely for the reasons cited in BC12 through BC14 of the ED. We acknowledge that the complexity and formality of contractual arrangements between private companies under common control can vary widely, depending on the entities' size, sophistication of the parties, ownership arrangements and the like.

Private Company Accounting Alternative

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.

Yes. As noted above, we believe a private company should have this option, subject to satisfying the incremental conditions in ASC 810-10-15-17AD. If the parent entity and/or the legal entity being evaluated for consolidation are public business entities, it is likely that contractual arrangements between the parties will be formalized and subject to greater oversight.

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?

We believe that the accounting alternative in Update 2014-07 should be replaced by the proposed broader private company alternative. There may be instances when a private company believes its financial reporting is enhanced by availing itself of the option in Update 2014-07, while continuing to apply the VIE consolidation guidance to all other common control entities. However, in the interest of minimizing diversity in practice, we believe the private company alternative should be the only option, applicable to all common control entities that satisfy the conditions in ASC 810-10-15-17AD.



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 incremental disclosures will provide sufficient information about the reporting entity’s involvement with a common control entity when the accounting alternative has been applied.

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.

We believe that the “full attribution” approach currently required by ASC 810-10-55-37D is unduly harsh; that is, it has been our experience that its application sometimes leads to a decision maker consolidating a VIE even though its involvement with the VIE is arguably consistent with that of an agent, not a principal. The proposed proportionate approach aligns the accounting model with the economics that the decision maker is entitled to receive through its indirect interest in a VIE. We believe that alignment should be respected regardless of common control relationships, and that it will lead to better financial reporting in the standalone financial statements of a decision maker.

VIE Related Party Guidance for Parties under Common Control

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.

In the circumstances cited in this question, we believe it is appropriate for a reporting entity to evaluate whether it is the primary beneficiary of a VIE. Further, we believe it is appropriate to conclude that, in certain circumstances, no intermediate-tier common control entity should consolidate a VIE, despite an indirect controlling financial interest in the VIE at the parent level.

As discussed more fully below, however, we are concerned that, absent additional guidance in the proposal, a common control group reporting entity will find it difficult to conclude whether decision-making authority should be attributed to it in the circumstances contemplated in ASC 810-10-25-44A. We believe that undue diversity regarding consolidation conclusions may result if the guidance in that paragraph is adopted as proposed. If the Board finds itself unable to articulate a decision principle (or a more prescriptive set of factors) that can be reasonably expected to lead to consistent consolidation conclusions in these circumstances, we recommend that the Board consider the two alternative approaches outlined in our response to Question 7.



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 are concerned that the proposed factors will not facilitate consistent conclusions regarding whether decision-making authority should be attributed to a common control group party. We acknowledge that the proposed factors largely align with those currently required to be considered when applying the “most closely associated” assessment in ASC 810-10-25-44. However, under the current framework, the only issue is identifying which of the parties in the common control group should consolidate the underlying VIE – not whether any of those parties should do so. Although the current “tie breaker” test arguably leads to inappropriate consolidation of a VIE by a common control group party in certain circumstances (because one party within the group must consolidate the VIE), we have generally considered the enumerated factors to be sufficient in the context of this analysis.

Under the proposal, a reporting entity must determine whether decision-making authority wielded by a common control group agent should be attributed to it. However, as noted above, unlike current practice, the proposed model does not mandate consolidation by a common control group party when the circumstances in ASC 810-10-25-44A exist. Under the proposal, a reporting entity may conclude that neither it nor any other member within the group warrants attribution of decision-making authority, in which case no common control party would consolidate the underlying VIE (exclusive of the parent). We believe that the objective of the proposed paragraph is an appropriate one, as stated in our response to Question 6.

However, we are concerned that, absent additional implementation guidance, evaluating whether decision-making authority should be attributed to a common control party in accordance with ASC 810-10-25-44A will not be operational in practice. We believe that consistent application of this concept (attribution of decision making) may be difficult to achieve. In accordance with the proposal’s decision tree, it will have been determined that substantially all of the activities of the underlying VIE do not involve, and are not conducted on behalf of, a single variable interest holder within the common control group. Accordingly, when ASC 810-10-25-44A must be applied, each common control party’s involvement with the VIE will necessarily entail a degree of involvement less than that implied by the “substantially all” threshold. As a consequence, the nature and extent of each common control party’s involvement with the VIE may vary widely, both qualitatively and quantitatively, when compared to other parties’ involvement with the entity (including, potentially, third-party variable interest holders). In view of this potential diversity, we believe that the four factors enumerated in the proposed paragraph will prove insufficient to facilitate informed – and consistent – conclusions whether a particular single variable interest holder’s involvement with a VIE warrants attributing decision making authority to it.

We also observe that, unless the ASU provides additional guidance, not only may inconsistent consolidation conclusions stem from applying ASC 810-10-25-44A, but entities may too often conclude that no intermediate common control party should consolidate a VIE in these circumstances, given the substantial degree of judgment involved.

In lieu of developing more prescriptive factors or providing additional implementation guidance with respect to the proposed ASC 810-10-25-44A, we suggest that the Board consider one of these alternative approaches:

- Require that a common control entity apply the guidance in that paragraph only if the common control group is expected to absorb a majority of the VIE’s anticipated variable returns. If that condition is satisfied, require that a member of the group (exclusive of the decision maker) consolidate the VIE, considering the factors enumerated in the proposed paragraph. If the common control group is not expected to absorb a majority of the VIE’s anticipated variable



returns, no additional analysis would be required at the intermediate-entity level. Although this approach will entail “forced consolidation” by a common control group party, that outcome will be predicated on the group absorbing more than 50% of the VIE’s variability, which we believe may eliminate the most egregious “forced consolidation” outcomes that we have observed in practice. Moreover, requiring consolidation in these circumstances would allay our concerns about the feasibility of the analysis proposed in ASC 810-10-25-44A, while at the same time being responsive to concerns about variable interest “parking arrangements” involving common control parties.

- Alternatively, eliminate the entirety of proposed ASC 810-10-25-44A, and confine the related-party/common-control party consolidation assessment to the analysis in proposed 810-10-25-44. As such, when the guidance in that paragraph applies, a member of a common control group (exclusive of the decision maker) would consolidate an underlying VIE only if it meets the “substantially all” condition in that paragraph. Although the assessment of that criterion under ASC 810 today frequently entails judgment, we do not believe that undue diversity in practice exists in its application. Further, we believe that the “substantially all” test, if appropriately applied, may adequately address concerns about the aforementioned common-control “parking arrangements” - although we acknowledge that the “substantially all” condition for consolidation is a threshold higher than that which could trigger consolidation by a common control party under the alternative above.

We also believe that clarification is warranted regarding how related parties that share power should apply the guidance in ASC 810-10-25-44A. This concern also extends to ASC 810-10-25-44. See our response to Question 8 for more details.

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 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.

Refer to our responses to Questions 6 and 7.

In addition, the following observations address situations when power is shared between two or more related parties.

- It is unclear what “shared power” arrangements involving related parties are intended to fall within the scope of ASC 810-10-25-44 and 25-44A: is power considered shared when the consent of two or more related parties is required with respect to all of a VIE’s significant decisions, or is the condition also considered to exist when multiple related parties each direct certain of a VIE’s significant activities (as discussed in ASC 810-10-25-38D and 25-38E, albeit in the context of unrelated parties)? We believe there are different interpretations in this regard in applying the guidance currently in ASC 810-10-25-44, thus recommend that this be clarified in the final standard.
- The proposed guidance in ASC 810-10-25-44 and 25-44A is written largely in the context of arrangements involving only a single decision maker. We recommend that the Board consider developing a standalone paragraph that addresses the consolidation evaluation to be performed when related parties share power.



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?

We agree with the proposed transition requirements.

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.

The proposed transition disclosure requirements are appropriate.

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

Given the targeted nature of the proposed changes to Topic 810, we believe that most reporting entities will not require much time to evaluate and implement the amendments. Accordingly, assuming an issuance date no later than the first quarter of 2018, we believe that the final ASU should be effective for fiscal years beginning after December 15, 2018, with earlier adoption permitted.

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

Yes. In this instance, given the limited scope of the proposed changes, we believe the ASU's effective date should be the same for all entities.

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.