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September 5, 2017

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

File Reference No. 2017-240

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

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*.

We acknowledge that the related-party guidance is complex and prone to misunderstanding by preparers, practitioners, and other stakeholders. Therefore, we support the FASB's efforts to improve the related-party guidance for variable interest entities ("VIEs"). However, we believe that the proposed ASU could be improved to articulate clearer principles and further reduce complexity.

VIE Related-Party Guidance

We support the initiative to remove the concept of "forced consolidation" in instances in which (1) a related-party group shares power over a VIE or (2) a decision maker and a related party under common control collectively (but not individually) have a controlling financial interest in a VIE. However, we believe that the proposed amendments, specifically proposed ASC 810-10-25-44A, lack a clear principle on how to attribute decision-making authority to a single party within a related-party group and may be inoperable as a result. We acknowledge, as noted in paragraph BC30 of the proposed ASU, that the analysis is dependent on specific facts and circumstances, but it is unclear how an entity should apply the four factors (the "Qualitative Factors") in proposed ASC 810-10-25-44A. Without a clear principle, the elimination of "forced consolidation" may result in reporting entities' "choosing" whether they would like to consolidate on the basis of how they interpret the purpose of those Qualitative Factors. Unless a principle is clearly defined (see our proposed alternative below), we would not support the elimination of the related-party tiebreaker test.

In addition, we note that the descriptions of scope in proposed ASC 810-10-25-44 and 25-44A are worded slightly differently. We do not believe that there is justification for differences in scope related to (1) whether substantially all of the activities are on behalf of a related party (the "Substantially All Test") and (2) the Qualitative Factors. As proposed, both paragraphs would apply in shared power situations; however, proposed ASC 810-10-25-44 would also apply to *all* other related-party groups and proposed ASC 810-10-25-44A would also apply only to common control groups. Because of the scope of each paragraph, we believe that there is a gap in the related-party guidance for situations with related parties that are not under common control. For example, in a scenario in which the reporting entity's CEO and chairman have a variable interest in a VIE, the CEO and chairman would be related parties of the reporting entity that have variable interests in the VIE. Accordingly, the reporting entity would consider the related-party relationships in proposed ASC 810-10-25-44. If no party was required to consolidate under that paragraph, there is no other guidance for the reporting entity to consider when evaluating the impact of the related-party relationship since power is not shared and the related parties are not under common control. However, we believe that this could indicate a principal-agent relationship in which one party should consolidate. Therefore, we believe that it would be appropriate for the reporting entity to also consider proposed ASC 810-10-25-44A, including our proposed amendments described herein.

Overall, we believe that the guidance related to the scope of these steps and when to apply them should be conformed to make the paragraphs less complex and confusing (see our proposed alternative below for suggested language).

Proposed Alternative

In light of our significant concerns with the proposed amendments, we propose the alternative below, which we believe remains consistent with the Board's objective. This alternative assumes that an entity makes the related-party considerations sequentially under the same scope for both the Substantially All Test and the Qualitative Factors. Specifically, the entity should make the related-party considerations when a related-party group has both of the characteristics of a controlling financial interest but no related party individually has those characteristics. We believe that this would be a much simpler articulation of how to apply the related-party rules and would thus (1) significantly improve understandability and (2) result in more consistent outcomes. Further, in the proposed alternative, the Qualitative Factors include a principle based on the identification of a presumed principal-agent relationship in which a related-party agent is acting on behalf of another entity on the basis of the nature of that relationship. We believe that this principle would improve the operability of the proposed guidance in ASC 810-10-25-44A.

The following represents our recommended proposed alternative:

810-10-25-44 If two or more related parties (including the de facto agents described in paragraph 810-10-25-43) collectively have the characteristics in paragraph 810-10-25-38A but no related party individually has those characteristics, the two steps in the following paragraphs should be applied sequentially.

810-10-25-44A First, if substantially all of the activities of the VIE involve or are conducted on behalf of a single variable interest holder in the related-party group, that single variable interest holder is the primary beneficiary of the VIE. The evaluation should be based on a qualitative assessment of all relevant facts and circumstances. In some cases, when performing that qualitative assessment, an entity may need to consider quantitative information. This assessment is consistent with the assessments in paragraphs 810-10-15-14(c)(2) and 810-10-15-17(d)(2). This step is not applicable for legal entities that meet the conditions in paragraphs 323-740-15-3 and 323-740-25-1.

810-10-25-44B Second, if no primary beneficiary has been identified after applying paragraph 810-10-25-44A, a reporting entity should determine whether the **decision-making authority** within a related group shall be attributed to itself in the determination of whether it is the primary beneficiary of the VIE. The evaluation should be, in principle, based on whether the nature of the related-party relationship indicates that a principal-agent relationship exists, and as a result, the decisions of one related party (the deemed agent) are being made on behalf of or as an extension of another related party (the deemed principal). This determination requires judgment and shall be based on an analysis of all relevant facts and circumstances, including all of the following (none of which are determinative in isolation):

- a. The nature of the related-party relationship, including whether the related parties are under common control or whether one party is a de facto agent of another party.¹
- b. The purpose and design of the VIE.
- c. The relationship and significance of the VIE's activities to the related party.
- d. The nature of the reporting entity's exposure (for example, through pro rata equity, senior interest, subordinated interest, and so forth).
- e. The magnitude of a reporting entity's exposure to the variability associated with the anticipated economic performance.²

A decision maker with a decision-making fee that is not a variable interest (see ASC 810-10-55-37 through 55-38) would not be the primary beneficiary of the VIE.³

¹ We believe that this factor should be added because of its importance in the assessment of whether decision-making authority should be attributed to another party in the related-party group.

² We do not believe that this factor should make reference to "greater than a majority of the variability" because that threshold is no longer relevant in the VIE consolidation framework. If a threshold is included, we would recommend "potentially significant" to align with the primary beneficiary analysis. That is, if one related party is acting as an agent and another party within the related-party group individually meets the potentially significant economics criterion, that would be an indicator that the related party with the economics criterion should consolidate.

³ We have retained this statement from the proposed ASU. However, we question whether it is necessary, because it implies that a decision maker with a decision-making fee that is a variable interest could be determined to be the primary beneficiary when the decision maker is considering the Qualitative Factors. If the principle is whether the decision-making authority should be attributed to a certain party, we question what scenario would actually result in the decision maker's attributing that authority back to itself (and therefore

810-10-25-44C When related parties under common control as a group have a controlling financial interest in the VIE, the parent entity shall consolidate the VIE (unless a scope exception to this Topic applies) regardless of the conclusions reached by the individual reporting entities under its control.

In addition to the suggestions in the proposed alternative, we recommend that the Board include examples to illustrate the guidance's application. These examples could include multiple related-party relationship situations that would highlight the importance of considering the nature of the related-party relationship. For example, some related-party relationships (reporting entities under common control, employees, officers, members of the reporting entity's governing board, and so on) would generally be stronger indicators of attributing decision-making authority than other related-party relationships (e.g., nonmutual transfer restrictions). We would be happy to share with the Board examples in practice.

Overall Consolidation Framework

As discussed in our October 17, 2016, response to the FASB's Invitation to Comment, *Agenda Consultation* (File Reference No. 2016-290), we continue to believe that the Board could simplify the consolidation requirements by establishing a single consolidation model. We believe that aligning the consolidation model for variable interest entities with that for other types of entities would eliminate inconsistencies and reduce unnecessary complexity.

On the whole, we question the remaining differences between the two models and the purpose and complexity of those inconsistencies. If the proposed ASU is issued in some form, we observe that the remaining differences would be as follows:

Concept	Voting Interest Entity Model	VIE Model	Observation
Definition of a controlling financial interest	For legal entities other than limited partnerships, the usual condition for consolidation is ownership of a majority voting interest.	A reporting entity has a controlling financial interest if it has both of the following characteristics: (1) the power to direct the activities of the entity that most significantly	The analysis of "power" has slight nuances; however, we would observe that a reporting entity that consolidates under the voting interest entity model would almost always consolidate under the VIE model. ⁴

consolidating) when the decision maker was already required to consider that authority when applying ASC 810-10-25-38A.

⁴ In practice, we have observed instances in which this would be the case. This would also be true for limited partnerships (and similar entities) because the framework is designed to result in (1) a limited partnership that is a VIE, (2) a voting interest entity that no party consolidates, or (3) a voting interest entity that is consolidated by a single limited partner if it has substantive kick-out rights. In scenarios (2) and (3), even if the VIE consolidation framework were applied, the consolidation conclusion would not change (i.e., a single limited partner would consolidate a VIE only if it had a substantive kick-out right).

	<p>For limited partnerships (and similar entities), the usual condition for consolidation is ownership of a majority of the limited partnership's kick-out rights.</p> <p>However, for all legal entities, control may not rest with the majority owner if certain conditions exist (most notably, substantive participating rights, discussed below).</p>	<p>affect the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity.</p> <p>Under the VIE model (unlike the voting interest entity model), a broader list of activities is typically considered in the determination of which party, if any, should consolidate.</p>	<p>It is possible that a reporting entity would be deemed to have power under the VIE model as a result of the broader list of activities considered but would not have a controlling financial interest under the voting interest entity model. Nonetheless, the rationale for two models has lost its relevance since its creation by FIN 46. We believe that one definition of power could be created without unintended consequences.</p>
<p>Participating rights — definition</p>	<p>Participating rights allow the limited partners or noncontrolling shareholders to block or participate in certain significant financial and operating decisions of the limited partnership or the corporation that are made in the ordinary course of business.</p> <p>An owner of a majority voting interest will be precluded from consolidating if a noncontrolling shareholder or limited partner has a substantive</p>	<p>Participating rights provide the ability to block or participate in the actions through which an entity exercises the power to direct the activities of a VIE that most significantly affect the VIE's economic performance.</p> <p>To have a substantive participating right in determining whether a limited partnership or similar entity is a VIE, the limited partners must participate in certain significant financial and operating decisions that occur as part of the ordinary course of the limited</p>	<p>The consideration of participating rights has been a tenet of the consolidation framework for more than 20 years. We believe that given the broad definition of a VIE (which includes many entities other than those that are "highly structured"), there is no compelling reason to retain two definitions with slight nuances related to the same concept. That is, slight changes in the facts and circumstances unrelated to governance can result in a change to the VIE conclusion. We believe that one definition of substantive participating rights could be developed that</p>

	<p>participating right in any decision that allows it to effectively participate in certain significant financial and operating decisions that occur as part of the ordinary course of the investee's business.</p> <p>In addition, the voting interest definition is used for limited partnerships (and similar entities) in the determination of whether the partnership is a VIE.</p>	<p>partnership's business in a manner similar to their participation under the voting interest entity model.</p> <p>However, to be a substantive participating right and preclude another party from controlling, the right must be held by a single reporting entity and unilaterally exercisable relative to all of the activities that most significantly affect the economic performance of the VIE.</p>	<p>would result in consistent and appropriate outcomes.</p>
<p>Impact of related parties</p>	<p>Related parties and de facto agents are not considered.</p>	<p>Related parties, including de facto agents, must be considered (as amended by this proposed ASU).</p>	<p>If the proposed ASU is finalized (and the related party tie-breaker test is removed), the remaining provisions articulate a principle of giving consideration to related parties when (1) the Substantially All Test is met or (2) qualitatively, one related party's decision-making authority should be attributed to another party. We question why this principle should not be equally applicable for voting interest entities. As mentioned above, there are often subtle differences that can change the VIE determination. Further, if a related party is being used in a manner that is concerning for a VIE, that same concern should be relevant for a</p>

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			voting interest entity. ⁵
Disclosures	The required disclosures for consolidated subsidiaries are limited, including disclosures related to consolidated subsidiaries that are not wholly owned.	In addition to the general disclosures required for consolidated voting interest entities, there are specific VIE disclosures for consolidated and unconsolidated VIEs.	We do not believe that the specific VIE disclosures (if they are to be preserved) are a valid reason to maintain the complexity of two consolidation models. We believe that a disclosure principle could be developed for variable interests in all legal entities that would accomplish the goal of providing relevant information about a reporting entity's involvement.

In summary, because of the narrow remaining differences between the two models as ASC 810 has evolved, we believe that the Board should consider a comprehensive project to resolve the above differences and drastically simplify the consolidation framework. We believe that this can be done in a manner that enhances the understandability of the guidance on consolidation, results in consistent and appropriate outcomes, and significantly reduces the burden related to the current scoping exercise.

Appendix A to this letter contains our responses to the proposed ASU's questions for respondents. Appendix B includes examples related to the private-company alternative. Appendix C includes other comments for the Board's consideration.

We would be happy to share additional perspectives and suggestions with the Board and FASB staff on the matters included in our comment letter.

* * * * *

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Brandon Coleman at (312) 486-0259 or Andrew Winters at (203) 761-3355.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

⁵ IFRS 10, *Consolidated Financial Statements*, requires entities to consider related parties in their analysis of all legal entities.

Appendix A **Deloitte & Touche LLP** **Responses to Proposed ASU's Questions for Respondents**

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. We do not support providing a scope exception to the VIE guidance to both private companies and public business entities (PBEs). We believe that if this is a consideration of the Board, it broadly questions the operability of the VIE consolidation model. In our October 14, 2013, comment letter on ASU 2014-07 (File Reference No. PCC 13-02), we did not support ASU 2014-07 for the following reasons, which we believe are still present:

- It does not address the root causes of complexity in the VIE consolidation model when control is not clearly evident (e.g., identification analysis and effect of implicit variable interests and determination of the primary beneficiary among related parties). Providing an exception does not address the issues for all constituents and creates additional complexities.
- It creates unintended opportunities for companies to structure off-balance-sheet debt arrangements even when control over an entity is clearly evident.

We would have similar concerns with a broad scope exception.

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.*

As we mentioned in our October 14, 2013, comment letter (File Reference No. PCC 13-02):

- There should be a rebuttable presumption that accounting standards for public and nonpublic companies should be the same except when differences are justified.
- There should be a higher threshold for differences pertaining to recognition and measurement (i.e., compared with presentation, disclosure, etc.).
- Amendments to the Codification generally should not deviate from the conceptual framework.

However, despite our conceptual reservations, we acknowledge that there is an existing exception to recognition and measurement requirements for private companies through the alternative provided by ASU 2014-07 and are not generally concerned by an expansion of an existing alternative.

With that said, the proposed ASU provides an example (Example 12) in a similar structure to the leasing arrangement example in ASU 2014-07. While Example 12 is helpful, it is unclear to us how the proposed alternative would be applied in more complex organizational structures (i.e., multitiered legal entity structures). The last sentence of proposed ASC 810-10-15-17AD states, "The parent shall consolidate the legal entity (unless a scope exception applies) if, collectively through its commonly controlled interests, it has a controlling financial interest in the legal entity." This sentence is circular and may be read as significantly expanding the exception. We believe that the purpose of the scope exception should be limited to arrangements **between** entities that have already been determined to be under common control (i.e., consolidated by the parent). An example would be when one common control subsidiary consolidates another common control subsidiary as a result of an intercompany (from the perspective of the parent) transaction. If that was the limitation of the scope exception, the last sentence would be unnecessary. We do not believe that this exception should extend to variable interests that private companies have in other "potential" subsidiaries that are not otherwise controlled and consolidated by the parent. See the examples in Appendix B that illustrate our concerns.

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 do not have concerns with replacement of the current accounting alternative for private-company leasing arrangements under common control provided under ASU 2014-07. We are not aware of existing leasing arrangements that are eligible for the current alternative but would be ineligible for the proposed 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.*

We agree with the disclosure requirements in proposed ASC 810-10-50-2AG. It would be helpful to clarify that the assessment should primarily be a qualitative assessment since the disclosure requirements in proposed ASC 810-10-50-2AG imply that a quantitative assessment is appropriate.

In addition, proposed ASC 810-50-2AG(e) implies that the disclosure requirements are required only in the event that the disclosure under proposed ASC 810-50-2AG(d) is provided. We encourage the Board to emphasize that this should be primarily a qualitative assessment and clarify that the disclosure requirements under proposed ASC 810-50-2AG(e) are applicable in all scenarios. In addition, we encourage the Board to add a requirement to disclose a range of possible maximum exposure in the event the actual amount is indeterminable.

In proposed ASC 810-10-50-2AG(d) and proposed ASC 810-10-55-205AZ(d), the example disclosure of the maximum financial exposure to loss states that management believes that the maximum exposure could equal all of the liabilities of the legal entity and also includes the liabilities as of the balance sheet date. We believe that this could result in entities' simply assuming that the liabilities represent the maximum exposure. We strongly encourage the Board to provide an example in which the maximum exposure is not as simple to determine.

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 agree with the Board's approach to require a single decision maker to consider, on a proportionate basis, its indirect interests held through related parties under common control rather than the indirect interest in its entirety in evaluating whether a decision maker's fee arrangement is a variable interest under ASC 810-10-55-37(c).

VIE Related-Party Guidance

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 reporting entity should be required to determine whether a controlling financial interest exists at the reporting entity level when related-party relationships exist. As mentioned above, we question if the proposed scope of ASC 810-10-25-44 and 25-44A is appropriate and results in more meaningful financial reporting. See the body of our letter for additional information.

The proposed amendments change the sequence in which the consolidation assessment steps are performed to require consideration of ASC 810-10-25-44 (i.e., the Substantially All Test) first and in all related-party scenarios (rather than in scenarios in which there is only a single decision maker and related parties under common control). As a result, the Substantially All Test will be more prevalent in the determination of the primary beneficiary of VIEs.

Challenges With the Application of the Substantially All Test

When performing the Substantially All Test, an entity must evaluate “if substantially all of the activities of the VIE either involve or are conducted on behalf of a single variable interest holder.” However, when an entity is considering all of the facts and circumstances, the meaning of the word “or” in that phrase is not clear in practice. The guidance implies (and in some circumstances the facts warrant) that the activities could substantially “involve” one party and be “conducted on behalf of” another. Since a VIE should have only one primary beneficiary, it is unclear how such circumstances would be analyzed.

Further, the determination of what represents “activities” has been interpreted differently by different entities; some focus on economic returns, while others focus on the nature of the outputs and inputs of the legal entity. There is already diversity in practice and difficulty among entities in the determination of what activities to consider when applying the guidance in the Substantially All Test, and it will determine a greater number of consolidation conclusions because of the change in sequencing in the related-party guidance.

We acknowledge that this phrase has been in U.S. GAAP, but as a result of the change in sequencing, it will be applied more frequently and thus will have a more significant impact in the determination of the primary beneficiary in related-party situations. Therefore, we strongly encourage the Board to add implementation guidance to clarify this phrase.

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 have significant concerns about proposed ASC 810-10-25-44A given that it is unclear how it should be applied. As mentioned in the body of this letter, we are concerned that unless the Board articulates a clearer principle in proposed ASC 810-10-25-44A, outcomes may not be consistent with the Board’s intent.

We also believe that the proposed amendments do not address structuring concerns through related parties that were present when the guidance in ASC 810-10-25-44 was first introduced in paragraph 17 of FIN 46(R).

We understand the desire to anchor the guidance in proposed ASC 810-10-25-44A to an existing framework, but we believe that it is not understandable as written and thus may result in inconsistent application for similar fact patterns.

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.*

Given the complexity of the guidance, it is difficult to say that the related-party tiebreaker test always results in appropriate consolidation results; however, we believe that when the test is applied, the appropriate party is determined to be “most closely associated.” However, we do have concerns that the test (which results in forced consolidation by one of the parties) is required to be performed in situations in which it should not be because the consolidation of the VIE is not meaningful for any of the related parties involved. For

example, a joint venture arrangement with shared power in which the two venturers are related because of nonmutual transfer restrictions rarely represents a presumption that one venture partner will exercise its power on behalf of the other. Therefore, we support the removal of the related-party tiebreaker test if it is replaced with an appropriate principle for identifying when a related party is presumed to be acting on behalf of a related party (see the body of this letter and our responses to Questions 6 and 7 above).

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 do not agree with the proposed transition requirements in ASC 810-10-65-9(b). For entities other than PBEs, ASU 2015-02 was effective for annual periods beginning after December 15, 2016. Therefore, there may still be private companies that are in the process of adopting ASU 2015-02. For example, if a company's year-end is November 30, it is likely in the process of adopting ASU 2015-02 for its November 30, 2017, financial statements. Depending on the issuance date of the final ASU, there may be private companies that are required to adopt the guidance within a few months, which could be burdensome and costly. If the issuance date is after December 15, we believe that all companies would have adopted ASU 2015-02 and therefore the requirement to adopt the proposed amendments concurrently with ASU 2015-02 would be irrelevant.

We also have concerns about the transition guidance outlined in proposed ASC 810-10-15-17AE related to the private-company alternative. Proposed ASC 810-10-15-17AE states that if any of the criteria in proposed ASC 810-10-15-17AD for applying the alternative cease to exist, the reporting entity should apply the VIE guidance prospectively from the date of the change. It then states that if the reporting entity becomes a PBE, it must apply the guidance retrospectively as a change in accounting principle.

The proposed guidance could result in a scenario in which the parent becomes a PBE and must apply the guidance retrospectively. If the parent had a subsidiary that was also applying the private-company alternative, that subsidiary would also no longer be able to apply the private-company alternative because its parent was a PBE. However, at the date at which it no longer qualifies, the subsidiary would apply the guidance prospectively. We do not believe that the parent and the subsidiary should apply different transition guidance. Therefore, we encourage the Board to revisit the transition guidance and align the transition methods for the parent and its subsidiaries.

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.*

We agree that a reporting entity should be required to provide the transition disclosures specified in the proposed ASU.

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

Given that companies will be required to reevaluate all related-party relationships and the complexities as discussed above, we believe that a minimum of one year is needed to implement the proposed amendments. Companies would also need to update their documentation for their consolidation analyses notwithstanding whether their consolidation conclusions have changed.

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

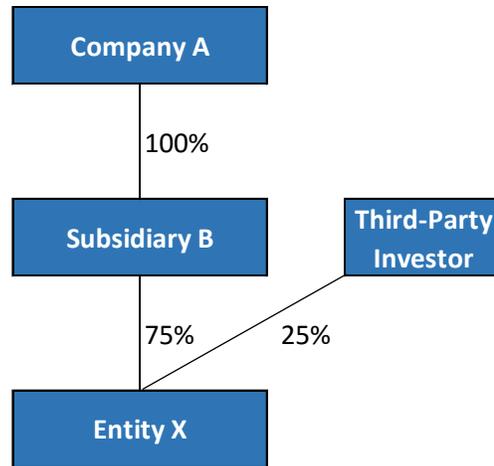
We believe that private companies may require additional time to reevaluate their related-party arrangements. Therefore, we support giving private companies more time. Given the developments at the July 20, 2017, EITF meeting and the SEC staff's announcement, we encourage the Board to specify the effective date for (1) SEC registrants and (2) non-SEC registrants.

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?*

We would not object to the effective date of the private-company accounting alternative's being consistent with the amendments in ASU 2016-03.

Appendix B Deloitte & Touche LLP Private-Company-Alternative Examples

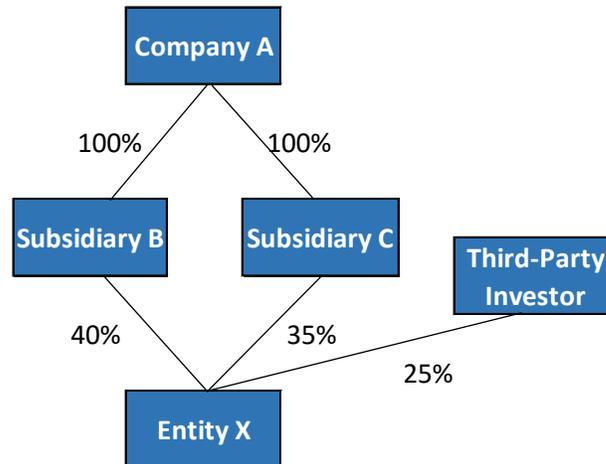
The examples and organization charts below expand upon the discussion of the comments in the body of our letter.



- Company A holds a direct interest in one subsidiary, Subsidiary B.
- Subsidiary B invests directly in a legal entity, Entity X, with an unrelated third-party investor.

To determine if B can apply the private-company alternative to X, B must first determine whether it has a controlling financial interest in X. Accordingly, an evaluation of whether X is a VIE is required. If X is found to be a VIE, an analysis would be required to determine whether B is the primary beneficiary of X and therefore can apply the proposed alternative to X. We do not believe that the analysis of X should be subject to the private-company scope exception, because the VIE analysis must be performed before the determination of whether X is under common control of A.

Further, it is unclear whether the private-company exception would extend to the following example:



Similar to the preceding example, for Subsidiary B or Subsidiary C to determine if the scope exception is available to be applied to Entity X, B or C must first determine whether it is under common control with X. We believe that to make such a determination, an evaluation of whether X is a VIE is required. If X is found to be a VIE, an analysis of which entity is the primary beneficiary would need to be performed.

We believe that the last sentence of proposed ASC 810-10-15-17AD is intended to address a situation like the one in the second example, in which a parent may have a controlling financial interest in a second-tier subsidiary (X) through its indirect interest in first-tier subsidiaries. However, given the complexity of potential legal entities and organization structures that may consider applying the scope exception, we believe that clarifying the intention of that sentence would be helpful.

Appendix C

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Other Significant Comments

Below are other significant comments for the Board's consideration:

- In proposed ASC 810-10-50-2AG, the language in the first sentence is difficult to follow. The sentence states, in part, "that neither consolidates nor applies the requirements of the Variable Interest Entities Subsections to a legal entity under common control because it meets the criteria in paragraph 810-10-15-17AD." We believe that it would be simpler to state "that does not consolidate and elects the private-company accounting alternative."
- In the updated flowchart on page 26 of the proposed ASU, there is a footnote attached to the words "Stop consolidation analysis" (which is defined in the earlier part of the flowchart). However, this earlier portion of the flowchart is excluded from the proposal. In addition, the flowchart is not consistent with proposed ASC 810-10-25-44 and proposed ASC 810-10-25-44A. We encourage the Board to revise the flowchart to be consistent with the proposed guidance and to include the footnote explanation.
- The summary of proposed amendments and certain paragraphs in the proposal's basis for conclusions do not specifically address all changes made to the related-party guidance in the primary-beneficiary assessment. We strongly encourage the Board to expand the discussion to include all changes made to minimize the risk of stakeholders' not identifying changes and not understanding the Board's rationale for such changes.