September 5, 2017

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2017-240

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to the Proposed Accounting Standards Update *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society's membership.

We generally agree with the effort to address the complexity and diversity in practice related to the application of the variable interest entity (VIE) consolidation model to entities under common control. We believe that an inherent difficultly exists in applying the VIE model to related parties, in particular related parties under common control. As noted in the discussion to the proposed update, part of the difficultly is a lack of explicit arrangements, but we also believe two other factors are primary contributors.

First, there is the potential for many related party interactions, beyond simply those under common control, including transactions involving public business entities, to have legal terms that do not reflect the substance or intent of the transacting parties. When this factor is considered along with the intricate rules and terminology in the VIE model it becomes difficult for practitioners to understand and interpret whether an entity should be properly consolidated, resulting in diversity in practice and confusion for financial statement users. In these instances a greater reliance on the concept of the purpose and design of the entity and examples may be more useful then tweaking the language of around fees paid to decision makers and service providers or re-writing the most closely associated test.

Second, the language used to describe the VIE model is in itself confusing, poorly organized, and does not provide clear, easily understood, linkage from its provisions to an overall principle. On this second point, we look forward to the pending proposal to rewrite the consolidation topic, which we hope will address some of these concerns.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Bob Singer, CPA
TIG Member

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 believe common control arrangements that qualify for exclusion from the scope of VIE guidance be limited to private company reporting entities, and that the provisions contained in ASU update 2015-02 with respect to such arrangements as they relate to publicly-held entities continue. We believe that the accounting alternative contained in this update would likely be adopted by a majority of privately-held entities and would reduce the diversity in practice that exists among such entities. As indicated in the “Basis for Conclusions” section of the update, outreach efforts indicate that inconsistency in application of the variable interest subsections of Topic 810-10 is most common among practitioners serving private concerns. Moreover, the treatment afforded private entities in this update is consistent with the Private Company Decision-Making Framework which provides a structure that focuses upon the information needs of users of private company financial statements and assists the FASB in evaluating the costs/benefit trade-off of a proposed standard. Further, we believe that the provision that would require private companies adopting the accounting alternative to apply the alternative to all current and future legal entities under common control would limit tendencies of management to apply the provisions selectively. With regard to public entities, whose shares are traded on major stock exchanges and whose share ownership is widely-held, we believe that the existing VIE guidance contained in ASU 2015-02 should continue. The VIE model for determining when an entity needs to consolidate has been a work in progress in the years following the debacles of Enron and Tyco, and the financial crisis of 2007-08. Efforts to limit off-balance sheet financing as well as standards that limit illegitimate use of special purpose entities (SPEs) should continue. As indicated in the “Basis for Conclusions,” policies regarding decision-making rights and power among entities under common control are more formalized thereby making it easier for management of those entities to apply and implement the guidance provided in ASU 2015-02.

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 that the private company (reporting entity) should have that option. As mentioned above, the information needs of users of publicly-held entities are different from those of private entities. With respect to the latter, a more direct relationship exists between the owners of private entities and their respective managements. Moreover, such firms rely on direct financing (e.g., bank loans), and the information needs of the lending banks regarding related party activity can best be accommodated by adequate footnote disclosure. In our view, the required disclosures contained in subsections 810-10-50-2AG through 810-10-50-2AI of the proposed update provide the necessary information for evaluating the nature and extent of related party activity. In contrast, publicly-held firms rely primarily on indirect financing (i.e., stocks and bonds) and ownership of their shares is widely-held. Thus, the information needs of stock and bondholders require a more elaborate delineation of the relationship between entities under common control and any respective legal entities that might warrant consolidation with the reporting entity or any one of the entities under common control. In this regard, we believe that the variable interest subsections of ASU 2015-02 are more applicable to publicly-held reporting entities, their subsidiaries, and/or any of the legal entities under common control, and would more adequately address the information needs of a diverse and diffuse group of stakeholders.

However, we believe that if a private company reporting entity elects the accounting alternative entities under common control that are public business entities should be included within its scope. We believe this to be the case because whether the legal entity under common control is a public business entity or not, does not impact the nature of the financial statement users of the private company reporting entity or the reasons discussed above for permitting the scope exception. Furthermore we do not find an argument to exempt a common control public business entity from the accounting alternative on a basis that the arrangement between the private company reporting entity and public business entity under common control are more likely to be explicit and arms-length contractual arrangements unconvincing. We find that if the primary issue was a lack of explicit and arms-length contractual arrangements then a better solution would be to force a most closely associated or similar test to be used when related parties or entities under common control exist. Even if the private company reporting entity was able to exclude a public business entity under common control from the VIE model the reverse would not be true. The different needs of the public business entities financial statement users would be addressed as it considered whether the VIE model applied to its relationship with the private company under common control. We also believe that including public business entities that are under common control with the private company reporting entity within the scope of the accounting alternative with lead to a more consistent application of the consolidation guidance for the private company reporting 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: We believe that the current accounting alternative which provides an exception for private company leasing arrangements under common control per Update 2014-07 should be replaced by the proposed broader private company alternative if so adopted by the Board. Moreover, we do not believe that such replacement would diminish the information content provided in the existing update as it relates to leasing arrangements of companies under common control.

Question 4: Do the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI adequately provides 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 the disclosures are adequate and appropriate, but encourage the Board to exclude legal entities included in combined financial statements in the same manner that a legal entity that is consolidated is excluded as described in 810-10-50-2AG. We do not find the differences in the presentation and disclosures of the combined financial as compared to consolidated financial statements to be significant and to warrant the inclusion of the additional information in combined financial statements. We also believe that by not excluding legal entities combined with the reporting entity from the disclosure requirements will lead to confusion about how to properly disclose information since both entities are included in the financial statements.

We considered whether the disclosures required in paragraphs 810-10-50-2AG should also include disclosure about the size and nature of the financing of the legal entity consistent with 810-10-50-5AD and concluded that excluding these requirements is appropriate because circumstances will arise where a legal entity under common control is within the scope of the accounting alternative, but does not interact with the private company reporting entity. Even though we believe the disclosures in 810-10-50-2AG will often times not be required based on materiality for a legal entity under common control that does not interact with the private company reporting entity we would be concerned that including requirements about the size and financing sources of the legal entity under common control would cause the disclosures to be interpreted as material and result in confusion for financial statement users.

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 have mixed viewpoints on whether the change is appropriate. Some of us believe that application of the existing provision often results, unjustifiably, in fees attributed to the decision maker or service provider that are more than an insignificant amount of a VIE's expected losses thus precluding the entity's reliance on paragraph 810-10-55-37C. Thus the change proposed in this update would have the effect of more accurately identifying decision making fees as variable interests and associating those interests with the entity having significant control over a particular legal entity. In effect, entities deemed to be VIEs would be consolidated with the entity correctly identified as a primary beneficiary.

Others believe that with the creation of the accounting alternative proposed in this update there is less need for changes to the evaluation of whether a decision maker or service provider arrangement is a variable interest. The concerns raised by private companies in this provision are resolved simply by adopting the accounting alternative. This group also believes that evaluating the interests held by entities under common control differently when assessing whether a reporting entity has a variable interest or is primary beneficiary is appropriate because the objective of the analysis is different. This group also believes that the proposed change will permit a greater opportunity for structuring and move the guidance away from considering the purpose and design of the legal entity. Lastly, this group also is concerned that this change will result in reduced disclosures for related party relationships and diminish the amount of information available to financial statement users of both public and private companies.

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 believe that a reporting entity should be required to make such determination in situations involving shared power relationships or those when related parties under common control jointly have a controlling financial interest in a VIE even when individual entities comprising the group do not. In our view, while determination of whether a reporting entity and any related parties under common control meet the criteria set forth in subparagraph 810-10-25-38 is difficult in many situations. As mentioned above, the VIE model has and continues to be a work in progress. The importance of limiting off balance sheet financing as well as minimizing attempts by overly zealous managements to craft complex ownership structures designed to inflate income cannot be over-emphasized. That said, it would be helpful for the Board to better define what constitutes common control and to provide comprehensive examples applying the VIE provisions to particular ownership structures in the implementation sections of its update.

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: In general, we believe that the four factors listed under this paragraph provide adequate guidance for determining whether the reporting entity is the primary beneficiary in situations where the characteristics that identify which party meet the power and economic control criteria of 810-10-25-38 are lacking. We believe that these factors will require the same judgements that are currently applied in the most closely associated test and will result in same conclusions.

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 believe the related party tie-breaker test currently in GAAP does result in appropriate consolidation results. In related party situations where arrangements between the parties may not be explicit or arms-length contractual arrangements we believe that the application of judgement based on the purpose, design, economic dependence and exposure, and relationships of a legal entity is the best method for determining the entities that should be consolidated. Furthermore, a large amount of confusion over the application of the VIE model to related party arrangements can be traced back to the requirement to evaluate the criteria in 810-10-25-38, which imply the existence of legally enforceable contractual arrangements, to legal arrangements that may not exist, may not be substantive, and may be re-written on the whims of one party or another. The challenge of applying the guidance determining the primary beneficiary is further complicated by a lack of examples that address these complex and subjective judgments.

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 stated in paragraph 810-10-65-9. Since the proposed exposure draft provides additional guidance amending and/or extending prior updates regarding consolidation of VIEs, the transition requirements contained in this paragraph should be consistent with those provided in paragraph 810-10-65-7.

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: Consistent with our response to question 10. we believe that the reporting entity should be required to provide the transition disclosures specified in 810-10-65-9. Moreover, we do not believe any other disclosures are necessary.

Question 11: How much time is needed to implement the proposed amendments?
Response: Since the amendments contained in this Update would provide additional guidance in areas not adequately addressed in prior updates, we would not expect an implementation period longer than two years. The accounting alternative provided private companies if they meet the criteria in 810-10-15-17AD should make it easier for management of those firms to conclude on consolidation. The amendments providing guidance regarding when decision rights constitute variable interests should make it easier for public entities under common control to determine what legal entities need to be consolidated or disclosed and changes to the related party guidance should have a small impact on existing practice and not require significant time to implement.

We believe that it is critical that if these proposed changes are to be made, in particular the proposed accounting alternative for private companies, that a final accounting standard update be adopted as quickly as possible, permit early adoption for any financial statements not yet issued or available for issuance, and be issued prior to December 31, 2017. Any delays in providing the relief proposed will impose significant costs in reporting for private companies that have already delayed plans for evaluating the adoption of ASU 2015-02 as a result of this ongoing project and proposal.

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: Since the guidance provided in the proposed amendments serve to clarify and ease the burden of implementing prior updates regarding VIEs for both private and public business entities, we believe that these amendments should be effective on the same dates for both entity types. More importantly, the effective transition dates of implementing these proposed amendments if adopted should be consistent with transition requirements of prior updates most notably updates 2016-03, 2015-02, and 2014-07.

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 believe that the effective date of the private company alternative should be consistent with the amendments mentioned in the above question. In this regard, we feel failure to conform the effective date of this alternative would lead to potential inconsistencies and inject unnecessary complexity in implementation. This proposed update and the other updates are interrelated and as indicated in our response to Question 12, it is important that the effective date of implementation of this update comport with the transition guidelines specified in the prior updates.