



Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

2017-280
Comment Letter No. 3

Ms. Susan M. Cospers
Technical Director
File Reference No. 2017-280
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

30 November 2017

Re: Proposed Accounting Standards Update, *Consolidation (Topic 812): Reorganization* (File Reference No. 2017-280)

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB or Board). We did not include in this letter our comments with respect to the proposal, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which is also included in this proposal.¹

We support the FASB's objective of making it easier for entities to navigate and apply the consolidation guidance. However, we continue to believe that the FASB should create a single comprehensive consolidation model to reduce the cost and complexity of applying the guidance for all entities.² We believe that today's guidance is challenging to apply because Accounting Standards Codification (ASC) 810 requires entities to consider both the variable interest entity (VIE) model and the voting model to determine whether a reporting entity has a controlling financial interest.

If the Board proceeds with this proposal, we believe it should provide a concordance, mapping the changes from ASC 810 to ASC 812 to alleviate some of the implementation costs that reporting entities may potentially incur from having to identify all of the changes. We also have concerns about the removal of the guidance related to implicit variable interests.

We believe the FASB should include transition guidance and allow for prospective adoption as the proposed edits are not intended to change practice. Prospective adoption would provide relief to reporting entities to the extent they identify a change in a consolidation conclusion.

¹ See Ernst & Young LLP Comment Letter 9, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (File Reference No. 2017-240) for more detail on our views on this topic.

² See Ernst & Young LLP Comment Letter 48, *Consolidation (Topic 810): Principal versus Agent Analysis* (File Reference No. 2011-220) for more detail on our views on this topic.



We also recommend that the guidance be effective after all entities, including those that are not public business entities (PBEs), have adopted ASU 2015-02, *Amendments to the Consolidation Analysis*, ASU 2016-17, *Interests Held through Related Parties That Are under Common Control*, and ASU 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*.

Our responses to the questions in the proposal are included in the Appendix.

* * * * *

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Very truly yours,

Ernst & Young LLP

Appendix – Responses to questions in the proposal

Question 1: Would the reorganization of Topic 810 into a new Topic 812 with separate Subtopics for VIEs (Subtopic 812-20) and voting interest entities (Subtopic 812-30) be easier to understand and navigate? If not, please explain what other approaches the Board should consider.

With respect to the Board’s proposal to create separate subtopics, we are concerned with repeating the guidance on consolidation and deconsolidation procedures in both ASC 812-20 and ASC 812-30. The guidance on consolidation and deconsolidation procedures could evolve differently over time due to subsequent amendments not reflected identically in both subtopics, which we believe should be avoided. We recommend that the FASB create a third subtopic that addresses consolidation and deconsolidation procedures and remove that guidance from the proposed subtopics 812-20 and 812-30. This approach also would simplify references from other ASC Topics to ASC 812 by eliminating the need to have two references.

We also believe the FASB should consider the implementation costs, as described in BC22, that reporting entities would bear when adopting the proposed standard and the relevant transition guidance. To alleviate some of these costs, we recommend that the Board provide a concordance that maps the movement of guidance from ASC 810 to ASC 812 as well as any changes to the original wording, similar to the approach used for ASU 2015-02.

Question 2: Is the guidance for “Consolidation of Entities Controlled by Contract” applicable only for not-for-profit entities and, thus, should be within Topic 958? If not, please explain why.

We agree with relocating the “Consolidation of Entities Controlled by Contract” guidance to ASC 958. Many entities that are controlled by contract are VIEs and, therefore, would not be subject to that guidance unless they are excluded from the scope of the VIE model. While we do not think that relocating the guidance would change practice, we recommend clarifying that it would apply only when a not-for-profit entity is evaluating a for-profit entity for consolidation.

Question 3: Is the consolidation guidance for research and development arrangements currently in Subtopic 810-30 not used in practice and, therefore, should be superseded? If not, please explain why or why not and the types of transactions that may still be within the scope of that Subtopic.

We typically do not see any entities applying the “Research and Development Arrangements” guidance currently in subtopic 810-30 to any transactions.

Question 4: Are there any areas or items in proposed Topic 812 that, as reorganized or clarified, are difficult to understand? If so, please describe the areas or items and explain why they are difficult to understand.

With respect to the Board's proposal, we have the following observations.

Definition of the term 'variable interest'

Proposed paragraph 812-20-05-2 characterizes a variable interest as "an economic interest in a legal entity that exposes its holder to the economic performance of a legal entity." However, we are concerned that this new description is not consistent with the variable interest definition in the Master Glossary and other sections within subtopic 812-20. For example, a reporting entity can have a variable interest in specified assets, rather than a legal entity, as described in paragraphs 812-20-25-28 through 25-31. We believe the proposed change in the definition of variable interest is not necessary and could cause confusion. Therefore, we recommend the FASB reference the Master Glossary for the definition and make any future changes within the Master Glossary.

Removal of certain guidance about implicit variable interests

We do not agree with the proposed removal of certain guidance about implicit variable interests, specifically paragraphs 810-10-25-20, 810-10-25-49 through 25-51 and 810-10-25-53 through 25-54. We understand that these paragraphs were removed because some constituents believe they were duplicative of existing guidance; however, we do not share this view and believe that they are important to entities' conclusions related to the identification of implicit variable interests. We recommend that the FASB retain this guidance on implicit variable interests from ASC 810.

Question 5: Given that the Board does not anticipate changes to accounting for consolidation or changes in outcomes reached as a result of the amendments in this proposed Update, should transition guidance be provided? If so, please explain what changes in this proposed Update may cause changes in practice or outcomes.

Question 6: Do you agree with the proposed transition requirements in paragraph 812-30-65-1? If not, what transition approach would be more appropriate?

Under the proposed transition requirements, entities that applied ASU 2015-02 retrospectively (to 2013, 2014 and 2015) would have to retrospectively apply this guidance to their 2013 financial statements. We would question whether the cost of a retrospective analysis provides a commensurate benefit given there is not an expected change in consolidation conclusions.

We understand that the Board's intent is to provide relief and make the consolidation guidance easier to understand and navigate. We recommend that the FASB allow adoption of this proposed ASU on a prospective basis. Since the proposed changes are not intended to change practice as discussed in BC16, there would be no effect on comparability, which is the issue that retrospective adoption is designed to address when adopting new accounting guidance. Prospective adoption would provide relief to reporting entities to the extent they identify a change in a consolidation conclusion.

Question 7: Should a reporting entity be required to provide the transition disclosures specified in the amendments in this proposed Update? Should any other disclosures be required? If so, please explain why.

We are not aware of changes in practice that may occur when adopting the proposed ASU, consistent with the Board's observations in BC16. However, if the proposed ASU results in a change in accounting for consolidation or outcomes previously reached and a transition adjustment is required for reporting entities, we agree that the FASB should require the transition disclosures outlined in ASC 250-10-50-1 through 50-2 (excluding ASC 250-10-50-1(b)(2)).

Question 8: Should the effective date be the same for both public business entities and entities other than public business entities?

Question 9: How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided with more time? If so, how much more time?

As stated in our cover letter, we recommend that the guidance be effective after all entities, both PBEs and non-PBEs, have adopted ASU 2015-02, ASU 2016-17 and ASU 2017-02. We do not believe non-PBEs would need more time to adopt the guidance as the FASB does not anticipate changes in practice or outcomes previously reached, as described in BC16.

However, we recommend that the Board consider the implementation costs reporting entities would bear to adopt the new standard. We believe the Board could lower these costs by providing a concordance to ASC 810 and tracking changes from the wording in ASC 810. If the Board provided these materials, entities would not have to perform their own mapping to assess potential changes in accounting conclusions or design and implement additional controls, policies and procedures specifically to identify changes from ASC 810. The FASB provided this information in ASU 2015-02, which was helpful to practitioners, and we believe a similar approach should be used herein.