
**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency**

March 6, 2012

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

Re: File Reference 2011-220: *Proposed Accounting Standards Update to Topic 810—
Consolidation: Principal versus Agent Analysis*

Dear Ms. Cospers:

The staffs of the four federal financial institution regulatory agencies (the Agencies) appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU) to Topic 810—Consolidation: Principal versus Agent Analysis (the Exposure Draft). The Agencies support the Financial Accounting Standards Board's (FASB or the Board) efforts to improve the existing consolidation guidance for determining whether an entity's decision maker has the attributes of a controlling financial interest and to better align U.S. generally accepted accounting principles (GAAP) with International Financial Reporting Standards (IFRS).

The Exposure Draft would change the guidance on consolidation of variable interest entities (VIE) by requiring a decision maker to determine whether it is using its power in a principal or an agent capacity. The introduction of this distinction could improve financial reporting by better representing the assets under the control of a reporting entity and eliminating the indefinite deferral from VIE consolidation that is currently afforded to investment companies. The Exposure Draft has conceptual merit. However, the Agencies are concerned the Exposure Draft has flaws that could lead to consolidation results that are not as representationally faithful as those determined under the existing guidance. Our most significant concerns include the following:

- The guidance is unclear on how competing attributes that are to be considered in the principal-agent analysis should be evaluated. Its chief shortcoming is requiring a decision maker to assess (i) its maximum potential exposure to losses, without regard to the probability of loss (which is the requirement under the current VIE guidance), in conjunction with (ii) its exposure to variability in returns (which contemplates probability). In weighing

a decision maker's maximum exposure to loss and exposure to variability in returns, it would seem the potential for loss exposure would almost always dominate the probability-based exposure to variability in returns. If this is true, it is possible decision makers could consolidate entities used for investment activities that the FASB does not intend them to. As a result of this shortcoming, the proposed principles are not consistently or clearly illustrated in several of the examples in the Exposure Draft. Absent further explanation of how FASB intends financial statement preparers to weigh the attributes described in the Exposure Draft, the examples have limited usefulness. Without further developing the principal-agent distinction, we believe there could be broad inconsistency among reporting entities in the conclusions reached regarding the need to consolidate similar arrangements.

- The Exposure Draft states the FASB does not intend for money market funds required to comply with or operate in accordance with requirements similar to those included in Rule 2a-7 of the Investment Company Act of 1940 (hereafter referred to as money market funds) to be consolidated by their investment managers. However, the FASB's stated objective does not appear to be supported by the implicit support examples in the implementation guidance, which could lead one to conclude that money market funds should be consolidated by their decision-making investment managers. Furthermore, the Agencies understand the U.S. Securities and Exchange Commission (SEC) is considering proposals to change the regulations governing money market funds. We encourage the FASB to consider these changes before issuing final consolidation guidance. If the principal-agent analysis as it would apply to these money market funds under the Exposure Draft cannot be modified to achieve the FASB's stated objective for such funds, we encourage the Board to consider retaining a temporary deferral of its final standard only for these money market funds until the reform effort is finalized.
- The Exposure Draft's examples suggest to us that the principal-agent analysis is separate and distinct from the process for identifying a VIE's primary beneficiary. However, we believe the FASB intends that a decision maker characterized as a principal by the principal-agent analysis also will be the VIE's primary beneficiary. To avoid confusion in practice and the potential for unintended consequences, we recommend the final standard more fully delineate the principal-agent analysis and the primary beneficiary determination. Conforming changes also should be made to the examples in the implementation guidance. If the FASB believes there are cases where a VIE's decision maker that is deemed to be a principal is not its primary beneficiary, the principles should be clarified in the final standard and illustrated through implementation guidance.

Despite the concerns described above, the Agencies support the FASB's decision to more closely align aspects of the consolidation guidance for VIEs and partnerships, particularly the evaluation of participating rights and kick-out rights. We also support the elimination of certain "bright lines" that exist in the consolidation guidance for VIEs, such as the condition that kick-out rights are deemed substantive only if held by a single party, and the certain characteristics decision-maker fees must have for such fees not to be regarded as variable interests. The Agencies believe these improvements will lead to more consistent consolidation outcomes.

Our answers to certain Questions for Respondents in the Exposure Draft are included in the enclosed appendix. We hope you find the Agencies' comments informative and useful. We would be pleased to discuss our views in greater detail or provide any desired clarification at your convenience.

Sincerely,

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Enclosure

Appendix

Responses to Certain Questions for Respondents in the Exposure Draft of the Proposed Accounting Standards Update (ASU) to Topic 810—Consolidation: Principal versus Agent Analysis

Question 1: When determining whether a decision maker is a principal or an agent, the proposed amendments require the analysis to consider the decision maker's overall relationship with the entity and the other parties involved with the entity. This analysis would be based on a qualitative assessment. Do you agree with this approach? If not, why?

Yes, the Agencies agree with the approach. A key foundation for assessing whether an entity's decision maker is a principal or an agent is determining whether the entity was designed on behalf of the decision maker or whether it was designed for the parties that have chosen to delegate decision-making authority. In many cases, the nature of a decision maker's commercial relationships does not always manifest itself in contractual arrangements. These commercial relationships often take shape through historical dealings and evolving business practices (e.g., an implicit obligation to provide financial support). Thus, the nature of these relationships should be considered as part of the consolidation analysis in conjunction with the qualitative assessment of an entity's purpose and design.

Question 2: The evaluation of a decision maker's capacity would consider the following factors:

- a) The rights held by other parties***
- b) The compensation to which the decision maker is entitled in accordance with its compensation agreement(s)***
- c) The decision maker's exposure to variability of returns from other interests that it holds in the entity.***

Are the proposed factors for assessing whether a decision maker is a principal or an agent appropriate and operational? If not, why? Are there any other factors that the Board should consider including in this analysis?

Yes, the Agencies generally agree with the proposed factors, but we have concerns regarding the clarity or consistency with how such factors are illustrated in the implementation guidance. The Exposure Draft proposes to amend the consolidation criteria by requiring a decision maker to evaluate three qualitative and quantitative factors. One factor includes an assessment of a decision maker's economic interests (fees and other interests held)¹ to determine whether it is exercising its decision-making authority as a principal (and, therefore, is required to consolidate) or as an agent (and, therefore, is not required to consolidate). Based on ASC paragraph 810-10-25-39C, we understand it is the FASB's intent also to require consideration of the entity's

¹ Refer to ASC 810-10-25-39C in the Exposure Draft.

purpose and design along with the three qualitative and quantitative factors. Therefore, this should be articulated more clearly in the final standard and implementation guidance.

The Exposure Draft permits a decision maker to include probability in evaluating its exposure to variability through its economic interests, whereas current U.S. GAAP (ASC paragraph 810-10-25-38A) prohibits consideration of probability in the consolidation assessment process. As a result, the threshold for the amount of retained risk exposure that would trigger consolidation under the Exposure Draft may be higher than under current U.S. GAAP if consolidation is based primarily on quantitative factors (versus qualitative ones), which may provide a greater opportunity for structuring off-balance-sheet arrangements. We recommend the FASB clarify in the final standard that, when evaluating the capacity of a decision maker, greater weight in the overall principal-agent analysis should be placed on variable interests that expose the decision maker to either (i) significant disproportionate positive and negative returns or (ii) only significant negative returns.

Additionally, we encourage the FASB to address how the principal-agent analysis should be applied to an entity for which no substantive ongoing decision making is required (e.g., a securitization transaction) and the relative amount of weight that should be placed on each of the quantitative and qualitative factors (including the entity's purpose and design). If the principal-agent analysis is not relevant to such entities, the final standard should state so and provide clear guidance that illustrates which party (if any) should consolidate such an entity.

Lastly, we recommend the FASB clarify in the final standard the relationship between the principal-agent analysis and the primary beneficiary determination. As currently drafted, ASC paragraphs 810-10-25-38A and 810-10-25-39A are silent as to whether a decision maker that is judged to be acting as a principal is a VIE's primary beneficiary. This silence could suggest the criteria for evaluating a decision maker's capacity and identifying a VIE's primary beneficiary are different because of how an entity's purpose and design is considered in the consolidation assessment. However, we believe it is the FASB's intent under the proposed model that the identification of the decision-making principal will identify the entity's primary beneficiary; therefore, this should be clarified in the final standard. Also, the Exposure Draft contains two separate sets of examples for VIEs—one that illustrates how to assess a decision maker's capacity and another that illustrates how to identify an entity's primary beneficiary. Maintaining two separate sets of examples for what is effectively a single analysis may lead to confusion in practice. We recommend the final standard include one set of comprehensive examples that identify both a VIE's decision-making principal and the entity's primary beneficiary.

Refer to our response to Question 3 below regarding the operationality of the principal-agent assessment process.

Question 3: The proposed Update would require judgment in determining how to weigh each factor in the overall principal versus agent analysis. Do you agree that the proposed amendments, including the related implementation guidance and illustrative examples, will result in consistent conclusions? If not, what changes do you recommend?

Yes, we agree with the proposed amendments. We support the use of judgment in determining whether a decision maker is exercising its power as a principal or an agent and favor a qualitative approach versus a purely quantitative analysis. However, the proposal merely states that “[d]ifferent weightings shall be applied to each of the factors.”² The requirement that a decision maker weight various quantitative and qualitative factors in determining whether it is a principal or an agent is not consistently or clearly illustrated in several of the examples included in the Exposure Draft. Without further explanation of how the FASB intends financial statement preparers to weigh the factors described in the proposed principles, we are concerned the examples could lead to significant diversity in the application of the proposed guidance.

We have noted the following areas where the examples within the implementation guidance could be improved as they relate to the weighting of factors.

Quantitative and Qualitative Factors

It is unclear how much weight the FASB placed on each of the quantitative and qualitative factors (purpose and design, decision-maker fees, other decision-maker interests held, and rights held by other parties) in reaching the FASB’s principal-agent conclusions, how those weightings were determined, and how those factors, taken as a whole, impact the consolidation conclusion. This results in ambiguity in some cases. For example, in Case E,³ it is unclear how the fund manager of a collateralized debt obligation (CDO) should weigh the magnitude and variability of its 35 percent interest in the subordinated equity interest in relation to the 65 percent interest held by a third-party investor. While the decision maker’s subordinated interest provides disproportionately greater exposure to credit and other risks than the more senior interests in the CDO, it only represents a 1.4 percent interest⁴ in the CDO’s total economics. As such, it is unclear how much weight should be placed on the decision maker’s exposure to variability from its subordinated interest given its limited significance (relative to the interests held by other third-party interest holders), as well as the purpose and design of the entity and the basis for such weightings. In addition, Case E is unclear on how much weight should be placed on the AAA-rated debt holders’ kick-out rights in this example and the basis for such weighting.

Similarly, the amount of weight the FASB placed on the magnitude and variability of other interests held by a decision maker, including *pro rata* interests, and the basis for

² Refer to ASC 810-10-25-39C in the Exposure Draft.

³ Refer to ASC 810-10-55-3AN through 55-3AX in the Exposure Draft.

⁴ The decision maker has a 35 percent interest in a class of securities that represents 4 percent of the CDO’s total economics.

such weighting is not articulated in Cases A, C, and D⁵ within the “Assessing a Decision Maker’s Capacity” section. As such, we are concerned that bright lines could emerge (including overreliance on the expected loss calculations described in the Glossary of ASC Section 810-10-20) for judging when other interests held by a decision maker are indicative of a principal relationship over an agency relationship.

The Agencies strongly encourage the FASB to develop a principle that articulates the relative importance of the factors rather than simply stating that different weights should be applied. This explanation of the FASB’s thought process will improve the consistency in application of the standard.

Other Decision-Maker Interests

It is unclear based on Cases E and F⁶ within the “Assessing a Decision Maker’s Capacity” section how a decision maker should weigh the significance of a *subordinated* interest in evaluating its exposure from other interests it holds and whether there is a rebuttable presumption that the retention of a subordinated interest is indicative of the decision maker exercising power as a principal rather than as an agent. To avoid the creation of bright lines, we recommend the FASB clarify in the body of the standard that subordinated interests should be evaluated based on an assessment of their relative significance and expected exposure to losses.

Additionally, the Exposure Draft requires a decision maker to consider its maximum exposure to loss through the interests it holds (without considering probability); however, it is unclear from any of the examples provided how this factor should be evaluated and weighted relative to the probability-based assessment the Exposure Draft permits (based on expected returns) when evaluating other interests held by the decision maker. This should be better illustrated in the final standard.

Implicit Support

We have several concerns with how the concepts of implicit obligations to provide financial support are articulated in the Exposure Draft. First, there is no clear principle for how to identify when an implicit obligation to provide financial support exists. This needs to be clarified and should be incorporated within the considerations that already exist in ASC paragraph 810-10-55-89 regarding implicit variable interests. Second, it is unclear how much weight an implicit obligation to provide financial support should carry in the overall principal-agent analysis. For example, Case F⁷ (within the “Assessing a Decision Maker’s Capacity” section) and Case C⁸ (within “Example 5: Identifying a Primary Beneficiary”) do not articulate clearly how much weight should be placed on

⁵ Refer to ASC 810-10-55-3B through 55-3K (Case A), ASC 810-10-55-3U through 55-3AC (Case C), and ASC 810-10-55-3AD through 55AM (Case D) in the Exposure Draft.

⁶ Refer to ASC 810-10-55-3AN through 55-3AX (Case E) and ASC 810-10-55-3AY through 55-3BK (Case F) in the Exposure Draft.

⁷ Refer to ASC 810-10-55-3AY through 55-3BK (Case F) in the Exposure Draft.

⁸ Refer to ASC 810-10-55-122 through 55-133 (Case C) in the Exposure Draft.

implicit support. These examples could lead a financial statement preparer reasonably applying judgment to conclude that an implicit obligation to provide support carries the greatest amount of weight in the principal-agent analysis.

Given that implicit support, by definition, is not contractual, clarification of this issue is critical to ensure greater consistency in application of the standard among different financial statement preparers. Additionally, given the breadth of assets held by certain entities and the varying degree of risk inherent in such assets, the FASB should clarify in the final standard that the assessment and weighting of implicit support should contemplate the likelihood that a sponsor is willing to provide support, which should be reassessed during each reporting period.

Question 4: Should substantive kick-out and participating rights held by multiple unrelated parties be considered when evaluating whether a reporting entity should consolidate another entity? If so, do you agree that when those rights are held by multiple unrelated parties, they should not in and of themselves be determinative? If not, why? Are the guidance and implementation examples illustrating how a reporting entity should consider rights held by multiple unrelated parties in its analysis sufficiently clear and operational?

Existing guidance in this area is inconsistent in that participating rights and kick-out rights are deemed non-substantive when held by more than one party with respect to a VIE, and are deemed substantive when held by a simple majority with respect to a partnership (or other similar entity) that is not a VIE. The Agencies agree that the proposed guidance regarding the relevance of kick-out rights held by multiple unrelated parties represents an improvement to the current consolidation framework.

Regarding the proposed amendments to how participating rights and kick-out rights are evaluated under the VIE model, allowing participating rights and kick-out rights held by more than one unrelated party to be considered substantive when evaluating whether a reporting entity should consolidate a VIE eliminates a rule that, under the existing standard, can yield consolidation conclusions that are not informative or decision useful and are sometimes misleading. We believe removing the existing bright line rules and allowing judgment to be used in evaluating participating rights and kick-out rights will produce consolidation results that more faithfully reflect the economic substance of an arrangement, especially when a small number of unrelated parties have the ability to exercise their kick-out rights in concert.

The elimination of the aforesaid bright lines will invariably require the use of significant judgment. When considering the wide variety of fact patterns that apply to the concentration/dispersion of participating rights and kick-out rights and the means by which investors can exercise their rights, the new guidance may lead to diversity in practice. We believe the breadth of diversity in practice could be narrowed by improving the existing examples in the final standard that illustrate when participating rights and kick-out rights are considered substantive, why they are considered substantive, and how to weigh such rights in the overall principal-agent analysis. The examples should address the nature and terms of kick-out rights as well as the dispersion of such rights with separate examples covering widely dispersed, moderately dispersed, and narrowly dispersed kick-out rights.

Question 5: The proposed Update would not include a criterion focusing on the level of seniority of a decision maker's fees when evaluating the decision maker's capacity. Do you agree that the seniority of the fee relative to the entity's other operating liabilities that arise in the normal course of the entity's activities should not be solely determinative of a decision maker's capacity? If not, why?

Yes, we agree with the proposal that subordinated fees alone should not be determinative; but rather, the subordination of decision-maker compensation should be evaluated along with other factors as part of the overall principal-agent analysis. This proposed change represents an improvement to current U.S. GAAP and better aligns the nature and characteristics of fees earned by an entity's decision maker acting solely in the capacity of an agent with compensation arrangements earned by other agents hired by an entity.

Question 6: The evaluation of a decision maker's capacity places more emphasis on the decision maker's exposure to negative returns (for example, an equity interest or a guarantee) than interests that only expose the decision maker to positive returns. When performing the principal versus agent analysis, should the assessment differentiate between interests that expose a decision maker to negative returns (or both negative and positive returns) from interests that expose the decision maker only to positive returns? If not, why?

Yes, we agree with the proposal for the principal-agent analysis to place more emphasis (and consequently more weight) on a decision maker's interests that expose it to negative returns than interests that expose the decision maker only to positive returns. This approach better aligns the nature and characteristics of a decision maker's interests in an entity with the capacity in which it exercises its authority. For example, if a fund investment manager is obligated to act in the best interest of third-party investors and avoid conflicts of interest, earns a market-based, fixed per annum fee based on assets under management, and holds no other interests in the fund, there is a reasonable basis to conclude the decision maker is more likely acting in the capacity of an agent. In contrast, if the fund investment manager is obligated to either (i) provide capital commitments or other forms of financing to the fund or (ii) hold significant subordinated interests in the fund in addition to its right to the fixed per annum fee, the nature of the decision maker's risk exposure is more likely to lead it to consider its own interests when making decisions. These factors would be more indicative that the investment manager is acting as a principal.

Question 7: A reporting entity would be required to evaluate whether there has been a change in the decision maker's capacity by considering whether there has been a change in the purpose and design of the entity. For example, the purpose and design of the entity may change if the entity issues additional equity investment that is at risk to the decision maker. Do you agree with this proposed requirement? If not, please specify when this relationship should be reassessed and why.

Yes, we agree with the proposed requirement for a decision maker to reassess its capacity as either a principal or an agent when there is a change in the purpose and design of the entity. Although the current consolidation guidance requires a reassessment of a VIE's primary beneficiary each reporting period if there is a change in circumstances, it is unclear from the Exposure Draft as to whether the role of a VIE's decision maker—as a principal or an agent—

should be reassessed pursuant to transactions that do not constitute ASC Topic 810 “reconsideration events.” Consistent with the reassessment of a decision maker’s role as principal or agent required pursuant to a change in the purpose and design of the entity (based on ASC paragraphs 810-10-35-6 and 35-7), the final standard should clarify that such an assessment also is required when there are changes in the power or interests (explicit/implicit) a decision maker holds (for example, a decision maker disposes of or acquires additional economic interests).

Question 8: The Board decided to include the principal versus agent assessment as a separate analysis within the overall consolidation assessment, rather than replacing the current guidance for evaluating whether a decision-making arrangement is a variable interest (and accordingly, a principal) with the revised principal versus agent analysis. The Board believes that if an entity’s fee arrangement does not meet the definition of a variable interest (for example, a nominal performance-based fee), the decision maker should not be required to continue the consolidation assessment. Do you agree? If not, why?

Yes, the Agencies agree that a decision maker should not be required to continue the consolidation assessment if an entity’s fee arrangement with the decision maker does not meet the definition of a variable interest. However, as drafted, the Exposure Draft may not achieve the FASB’s stated objective of simplifying the consolidation analysis for VIEs because the principles do not clearly articulate that a principal-agent analysis is not required if a decision maker’s fee arrangements are not deemed to be variable interests. This concept is only minimally addressed through proposed amendments to the example illustrated in ASC paragraph 810-10-55-37. Accordingly, we recommend the final standard clearly articulates in the main principles that the principal-agent analysis is required only when a decision maker determines that its (and its related parties’) economic interests represent variable interests.

Question 9: The Board expects the proposed principal versus agent guidance may affect the consolidation conclusions for entities that are consolidated as a result of the decision maker having a subordinated fee arrangement (for example, collateralized debt obligations). However, the Board does not otherwise expect the proposed amendments to significantly affect the consolidation conclusions for securitization entities, asset-backed financing entities, and entities formerly classified as qualifying special-purpose entities. Do you agree? If not, why?

As stated in our response to Question 2, we are concerned the application of the proposed principles could lead to opportunities for structuring off-balance-sheet securitization transactions that have been consolidated by financial institutions under current ASC Subtopic 810-10. This concern stems from the Exposure Draft permitting a decision maker to consider probability when assessing whether it is a principal or an agent, whereas current U.S. GAAP prohibits consideration of probability in the consolidation assessment process. As a result, the threshold for the amount of retained risk exposure that would trigger consolidation under the Exposure Draft may be higher than under current U.S. GAAP. We recommend the FASB clarify in the final standard that, when evaluating the capacity of a decision maker, greater weight in the overall principal-agent analysis should be placed on variable interests that expose a decision

maker to either (i) significant disproportionate positive and negative returns or (ii) only significant negative returns.

Question 10: Update 2010-10 was issued to address concerns that some believe that the consolidation requirements resulting from Statement 167 would have required certain funds (for example, money market funds that are required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940) to be consolidated by their investment managers. The amendments in this proposed Update would rescind the indefinite deferral in Update 2010-10 and would require money market funds to be evaluated for consolidation under the revised guidance. The Board does not intend the application of the proposed Update to result in money market funds being consolidated. Do you agree that the application of the proposed Update will meet this objective? If not, why and what amendments would you recommend to address this issue?

We support the rescission of the deferral provided in ASU 2010-10 for investment companies. However, we believe that, as drafted, application of the Exposure Draft might lead a practitioner in applying reasonable judgment to conclude that money market funds would need to be consolidated by their respective sponsors. Although the guidance illustrated in Case C⁹ (within “Example 5: Identifying a Primary Beneficiary”) describes a structured investment vehicle, rather than a money market fund, such a conclusion would be reached for a money market fund through the application of the Case C guidance, which appears to place substantial weight on implicit support.

The consolidation principles should be developed in a way that ultimately yields consolidation conclusions that faithfully represent a reporting entity’s involvement with and exposure to another entity for which it is the decision maker and exercises its authority as a principal (or otherwise has the power to control its most significant decisions). However, the rescission of the indefinite deferral for investment companies may yield a significant increase in the size of certain entities’ balance sheets due to consolidation, which may be the appropriate outcome in certain circumstances.

The U.S. SEC is considering proposals for reforming the regulation of money market funds that are aimed at addressing the manner in which risk is allocated in times of market dislocation. We strongly encourage the FASB to consider these forthcoming reform efforts before finalizing the amendments to the consolidation model to ensure the new principles are responsive to the intended purpose of money market fund reform. For example, one proposal for money market fund reform would require an unrelated third party to provide capital on a prefunded basis, sufficient to diminish or eliminate the need for ongoing financial support from a sponsor. If such a proposal were adopted, this likely would suggest the fund sponsor is acting more as an agent than a principal unless and until the amount of funded capital erodes to a level where sponsor support may be required. This approach would better align the consolidation conclusion for a money market fund (or a similar investment vehicle) with its investment manager’s level of compliance with the anticipated reform. If full consideration of the U.S. money market fund reform is not possible before finalizing the amendments to the consolidation guidance, the FASB

⁹ Refer to ASC 810-10-55-122 through 55-133 (Case C) in the Exposure Draft.

could consider retaining a temporary deferral only for money market funds until the reform effort is finalized.

We also recommend requiring money market fund sponsors that determine, upon evaluation, that consolidation of their funds under management is not required (or are subject to a temporary deferral) to disclose the nature of the assets and the terms of the liabilities associated with each fund, the interests held in such funds, and the attendant risks such funds pose to the sponsor.

Question 11: For purposes of applying the proposed principal versus agent guidance, the proposed amendments would require a reporting entity to include the decision maker's direct and indirect interests held in an entity through its related parties. Do you agree with the requirement that a decision maker should include its proportionate indirect interest held through its related parties for purposes of applying the principal versus agent analysis? Why or why not?

Yes, the Agencies agree with the proposed requirement to include proportionate indirect interests held by a decision maker's related parties for the purpose of evaluating a decision maker's capacity. We agree that a decision maker should consider interests held by its related parties, as the decision maker would be exposed to the same level of variability whether it holds an interest directly or indirectly through its related parties (e.g., equity method investees). However, the final standard should explicitly state that a decision maker must consider the interests held by any entity it consolidates under U.S. GAAP as if they were its own direct interests.

Question 12: The amendments in this proposed Update would require a general partner to evaluate its relationship with a limited partnership (or similar entity) by applying the same principal versus agent analysis required for evaluating variable interest entities to determine whether it controls the limited partnership. Do you agree that the evaluation of whether a general partner should consolidate a partnership should be based on whether the general partner is using its decision-making authority as a principal or an agent?

Yes, the Agencies agree that the evaluation of whether a general partner should consolidate a partnership should be based on whether the general partner is using its decision-making authority as a principal or an agent. In this regard, the Agencies support symmetrical models for evaluating whether a decision maker should consolidate a VIE as well as a partnership (or a functionally equivalent entity) that is not a VIE because differentiating the accounting analysis based on the accounting characterization of an entity does not improve financial reporting and introduces unnecessary complexity. The FASB also should consider eliminating the remaining differences between the VIE and partnership consolidation models as the remaining substantive differences are limited to the definition of related parties. This would move the consolidation models in U.S. GAAP and IFRS closer together and demonstrate a greater effort to work toward the IASB's and FASB's mutual goal of convergence.

Question 13: Do you agree with the proposed transition requirements in paragraph 810-10-65-4? If not, how would you propose to amend those requirements, and why? Please provide an estimate of how long it would reasonably take to implement the proposed requirements.

Refer to the Agencies' response to Question 10 regarding the application of the proposed guidance to money market funds.

Question 15: Should the amendments in this proposed Update be different for nonpublic entities (private companies or not-for-profit organizations)? If the amendments in this proposed Update should be applied differently to nonpublic entities, please provide a rationale for why.

The Agencies would not support the establishment of different consolidation principles for public and nonpublic entities. As the FASB finalizes the consolidation guidance, we would support its consideration of whether the final standard could be modified through practical expedients that achieve the intended consolidation objectives and provide for condensed disclosure requirements.