August 23, 2017

Technical Director
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File Reference No. 2017-240

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

The California Society of CPA’s ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

Questions:

**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.

The Committee believes that consolidation of VIEs by private companies is frequently of limited benefit to users of financial statements of the company, and can be an unnecessary burden on the companies and their accountants. This is one of the reasons that the Committee supports the Board’s proposal. However, it sees the consolidation of VIEs by public business entities as generally beneficial to financial statement users and would not support an expansion of the exclusion of common control arrangements of public business entities from the scope of VIE guidance.

**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.

The Committee agrees with the Board’s conclusion 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. In reaching this conclusion, the Committee recognized and agreed with the important incremental disclosures proposed that inform financial statement users of the nature, risks and exposures related to an entity’s involvement with other legal entities under common control.

**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?

The Committee believes that the current accounting alternative for private company leasing arrangements under common control provided under Update 2014-07 should be retained at a minimum, and expanded if necessary to be consistent with the proposed private company alternative. The Committee is not aware of any existing leasing arrangements that are eligible to be accounted for using the current alternative that would not be not captured by the accounting alternative in the proposed amendments, but urges the Board to assure that the final standard does not have any unintended consequences in this regard.

**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.

The Committee believes that the proposed disclosures are adequate.

**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.

The Committee agrees with the Board’s conclusion that 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.
VIE Related Party Guidance for Parties under Common Control

**Question 6:** Should a reporting entity be required to determine whether a controlling financial interest exists at the reporting entity level for situations in which power is shared among related parties or when related parties under common control, as a group, have a controlling financial interest but the parties individually do not? If not, please explain why. In doing so it is acknowledged that, in certain situations, it is possible that no reporting entity under common control will consolidate a VIE.

The Committee agrees with the Board’s conclusion that 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.

**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.

While the factors identified in paragraph 810-10-25-44A may not be conclusive in all cases, the Committee has not identified any other factors to consider.

**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.

The Committee believes that the existing “tie breaker” test can result in appropriate consolidation results, but that the proposed amendments would achieve more appropriate results in most situations. The Committee does not foresee any unintended consequences, although the consolidation evaluation can be complex and it is difficult to foresee all situations.

**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?

The Committee agrees with the proposed transition requirements because they are consistent with those in Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis,
**Question 10:** Should a reporting entity be required to provide the transition disclosures specified in this proposed Update? Should any other disclosures be required? If so, please explain why.

The Committee believes that the proposed transition disclosures are appropriate and should be retained because they are consistent with those in Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis.

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

The Committee believes that changes to adopt the proposal will require a modest amount of time in the year of implementation. To the extent that entities will no longer be required to consolidate VIEs, there will be a modest time-saving after the year of implementation.

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

The Committee believes that the proposed amendments should be effective on the same date for both public business entities and entities other than public business entities. It sees no reason for a deferral of the effective date for entities other than public business entities.

**Question 13:** Should the effective date of the private company accounting alternative be consistent with the amendments in Accounting Standards Update No. 2016-03, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance?

The Committee believes that the effective date of the private company accounting alternative be consistent with the amendments of the referenced standards.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants