August 30, 2017

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

Re: File Reference No. 2017-240

Dear Ms. Cosper:

We appreciate the opportunity to comment on the proposed Accounting Standards Update ("Update") for Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities, issued by the Financial Accounting Standards Board ("FASB").

Baker Tilly is a large public accounting firm, currently ranked number 12 in the United States with over 300 partners and 2,500 team members generally operating regionally, from Minneapolis to New York City. Our practice is varied, offering audit and assurance, tax and consulting services across a broad array of clients; including public companies, larger privately held organizations and not-for-profit entities.

General Comment:

We are pleased that the Board has chosen to take up simplification of variable interest entities ("VIE") for private companies. Since the VIE standard was issued, private companies have struggled with its implementation. As noted in the ED, private companies often have a number of related business entities under common control. These separate entities are set up for a variety of legitimate business reasons, including tax and estate planning. They generally are not established with any sort of "structuring" objective. Moreover, the users of private company financial statements are generally well informed about the existence of the other entities and their purpose and relationship to the reporting entity. When the VIE guidance was first issued, preparers, auditors and users struggled to understand how to apply the guidance.

The Board’s work to provide this simplification should result in widespread adoption by many private companies and will result in compliance cost reductions for most. We also believe the enhanced disclosure requirements will benefit the users of the financial statements and enable them to obtain a clear understanding of the relationships and the associated exposure for the reporting entity.

We do not intend to comment directly on the questions, but offer the following observations:

As to question #1, we do believe that public business entities should be excluded from the scope of the VIE guidance. That is the proposed changes should be limited to a private company alternative. Our concern is that the threat of "structuring" among public business entities is much greater and the benefit of complete transparency for the users of those financial statements outweighs the continuing cost of providing such information. We believe that before the Board would make such a change, additional study and outreach among public company financial statement users should be undertaken.
We agree that this guidance will supersede the need for the guidance related to common control leasing arrangements in ASU 2014-07. In addition, we believe the accounting election should apply to all of the reporting entities' VIEs rather than permitting an entity to "cherry pick" those to consolidate or not consolidate. We are curious as to how this guidance articulates with the soon to be adopted ASC 842, Leasing. We believe it may be beneficial to make clear that although an entity elects not to consolidate the commonly controlled leasing entity, that the provisions of ASC 842 will apply nevertheless and a right to use asset and lease liability will be recorded on the balance sheet. It may be beneficial to make a note of this in the Basis.

Additionally, the Board may want to consider additional guidance in the context of this ASU with respect to combined financial statements and when they are appropriate and how this guidance as well as ASC 842, will apply in such situations. A discussion in the Basis for Conclusions could be useful, if changes to the ASC are not warranted.

We appreciate the opportunity to provide the above comments and will closely follow developments with respect to this exposure draft.

Sincerely yours,

Baker Tilly Virchow Krause, LLP

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