



August 28, 2017

[via email – director@fasb.org](mailto:director@fasb.org)

Technical Director

File Reference No. 2017-240

Re: FASB June 22, 2017 Proposed Accounting Standards Update -

*Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* [File Reference No. 2017-240]

Dear Sir or Madam:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJCPA) is pleased to offer its feedback and comments on the above referenced - Proposed Accounting Standards Update, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (Proposed Update). The NJCPA represents New Jersey's accounting profession with over 14,000 certified public accountants and future CPAs. The comments herein represent those of some of the members of the Accounting and Auditing Standards Interest Group (the Group) only and do not necessarily reflect the views of all members of the Group or NJCPA.

We appreciate the opportunity to comment on the FASB's Proposed Update. Overall, the Group agrees with the FASB's proposal allowing a private company to not apply the Variable Interest Entity (VIE) guidance to legal entities under common control if certain criteria are met. The Group noted in the Basis for Conclusions to the Proposed Update that the Board decided not to define common control. The Group believes a definition of common control would help private companies determine whether an arrangement is under common control. However, the Group agrees with the Board's position not to delay the issuance of the Proposed Update for the purposes of defining common control. The Group believes the Board may want to consider defining common control at a future date.

The Group's responses to the *Questions for Respondents* are explained below.

**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 Group believes the accounting alternative should be allowed for public business entities. However, this consideration should not delay the Board from finalizing the amendment for private companies.



**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 Group generally believes that a private company should have the option to not apply the VIE guidance to legal entities under common control. Members of the Group frequently experience users expressing dissatisfaction with private company financial statements consolidated with entities under common control because they are only seeking financial information for the parent. At times, members of the Group believe private company financial statements consolidated with entities under common control do not provide users with the information they are looking for. Users may request stand-alone financial statements of the company, which results in additional costs which may or may not be able to be recovered because of duplication of financial information – stand alone and consolidated. At times when it may provide useful information, a private company still has the option to issue financial statements combined with 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 Group believes that the guidance in ASU 2014-07 should be replaced by the broader private company alternative because the proposed accounting alternative addresses the concerns of private companies currently applying the accounting alternative for leasing arrangements under common control. The Group also believes existing leasing arrangements eligible to be accounted for using the current alternative that we are aware of will be covered by the accounting alternative in the Proposed Update.

**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 Group believes the proposed disclosure requirements in paragraphs 810-10-50-2AG through 50-2AI will provide sufficient information about a reporting entity's involvement with and exposure to a legal entity. The Group does not believe additional disclosures are necessary to appropriately reflect a reporting entity's involvement with or exposure to a legal entity.



**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 Group believes indirect interests held through related parties under common control with a decision-maker should be considered proportionately. The Group's understanding is most times these indirect interests are organized in a manner to avoid being considered a direct interest entirely when determining if a decision-making fee is a variable interest in a VIE.

**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 Group believes private companies should not be required to determine if a controlling financial interest exists at the reporting entity level when related parties share power or have common control as a group, but not individually. The Group does not support private companies consolidating the VIE, because the additional proposed requirements for disclosure should reduce the risks of not consolidating these entities.

**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.*

The Group believes the factors in paragraph 810-10-25-44A can adequately determine whether a reporting entity within a common control group may be the primary beneficiary of a VIE.

**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 Group believes the "related party tie-breaker" should be eliminated in GAAP. The related party tie-breaker test is rarely applied by private companies and its removal aids in the objective of simplifying the Standards.



**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 Group agrees.

**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 Group believes the transition disclosures are applicable and should be required to be provided by the reporting entity.

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

Since the proposed amendments will simplify current consolidation guidance, the Group believes minimal time will be needed for implementation by private companies. However, some companies may need additional time to prepare the proposed financial statement disclosures.

**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 Group believes the proposed amendments should become effective on the same date for both public business entities and other 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 Group agrees the effective dates of the private company accounting alternative be consistent with the effective date and transition guidance of 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)

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We appreciate the opportunity to comment on behalf of the NJCPA Accounting and Auditing Standards Interest Group and are happy to discuss our comments with you at your convenience.



Respectfully submitted,

*Elizabeth B. Harper*

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