July 25, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116

Norwalk, CT 06856-5116

Re: File Reference No. 2016-260

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update—*—Interests Held through Related Parties That Are under Common Control.* The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We are supportive of the Board’s efforts to address unintended consequences of the consolidation guidance codified by ASU 2015-02, *Amendments to the Consolidation Analysis*. However, we believe that the related party tie-breaker guidance in Topic 810 should be refined or clarified to also require consideration of an economic need or business purpose for a common control parent separating the decision-making rights from the economic interests that participate significantly in the variable interest entity’s results.

Following are our responses to the proposal’s Questions for Respondents.

*Question 1: If a reporting entity is the single decision maker of a VIE, the amendments in this proposed Update would require that reporting entity to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties to determine whether it is the primary beneficiary of that VIE. This evaluation would include all related parties as defined in paragraph 810-10-25-43, including those under common control with the single decision maker. Do you agree with this approach? If not, please explain why.*

We agree with the proposed approach, but are concerned that, in some circumstances involving entities under common control, the results of applying the related party tie-breaker in paragraph 44 of ASC 810-10-25 may not result in the most appropriate consolidation conclusion. We understand that, subsequent to the issuance of ASU No. 2015-02, the Board became aware of a situation where a public company would have been required to account for a VIE in which it held more than 90% of the economic interests under the equity method. We agree that result would not be meaningful to users of the investor’s financial statements. However, we are concerned that a public company with the power to direct the activities of a VIE with a significant amount of debt could avoid consolidation if its non-public sister company held all of the variable interests in the VIE. We do not think that result is any better than the result that prompted the Board to consider amending the way in which entities under common control determined which entity should consolidate a VIE.

We believe the Board should revise the related party tie-breaker guidance to require an assessment of whether there is a substantive business purpose or economic need for the parent to have separated the power to direct the VIE’s activities from the obligation to absorb losses, or the right to receive the benefits, of the VIE that could be significant between its controlled subsidiaries. As the Board noted in paragraph BC66 of ASU No. 2015-02, “there may be situations in which the decision maker exerts more control over the related party than the quantitative amount that its economic interest may indicate”. We do not see how the factors in paragraph 44 of ASC 810-10-25 would help preparers to identify a situation in which that is the case. Assessing whether there is an economic need or substantive business purpose for the structure may help. For example, in a structure where the decision making rights and economic interests have been separated, the fact that the structure lacks an economic need or a substantive business purpose would point towards the decision maker as the VIE’s primary beneficiary.

We believe this refinement could be based on other existing US GAAP, such as the guidance on combining derivative contracts in ASC 815-10-15-8 through 15-9 (formerly DIG Issue K1).

*Question 2: Would the proposed amendments adequately address stakeholders’ concerns that, in certain situations involving entities under common control, the amendments in Update 2015-02 may require a single decision maker of a VIE to consolidate that VIE even if it has little to no direct variable interests in the VIE?*

We believe that the proposed amendments would address certain situations where consolidation does not provide meaningful information to financial statement users, but we are concerned that the proposed guidance may not result in the most appropriate consolidation conclusion in all circumstances. See our response to Question 1 for our suggested refinement of the proposed guidance.

*Question 3: Do you agree with the proposed transition requirements in paragraph 810-10-65-8? If not, what transition approach would be more appropriate?*

We agree with the proposed transition requirements.

*Question 4: 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.*

We agree with the proposed transition disclosures.

*Question 5: Should the proposed amendments be effective immediately upon issuance of a final Update for all entities that already have adopted the amendments in Update 2015-02?*

Yes, we believe that the proposed guidance should be effective immediately upon issuance for entities that have already adopted the guidance in ASU 2015-02.

*Question 6: Should entities that have not yet adopted the amendments in Update 2015-02 be required to adopt the amendments in this proposed Update at the same time they adopt the amendments in Update 2015-02?*

Yes, we believe that the adoption of the proposed guidance should be aligned with the adoption of the guidance in ASU 2015-02.

We appreciate the opportunity to offer our comments.

Sincerely,

**Ryan Brady, CPA**
Chair, Accounting Principles Committee

**Brian Kot, CPA**
Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE

ORGANIZATION AND OPERATING PROCEDURES

2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

 **Large:** (national & regional)

 Jared Bourgeois, CPA PricewaterhouseCoopers LLP

 Ryan Brady, CPA (Chair) Grant Thornton LLP

 Rakesh Desai, CPA KPMG LLP

 William Keirse, CPA Ernst & Young LLP

 Scott Lehman, CPA Crowe Horwath LLP
 Reid Mitchell, CPA Wipfli LLP
 Elizabeth Prossnitz, CPA BDO USA LLP
**Medium:** (more than 40 professionals)
 Timothy Bellazzini, CPA Sikich LLP
 Michael Kidd, CPA Mowery & Schoenfeld LLC
 Matthew Mitzen, CPA Marcum LLP
 Jeffery Watson, CPA Miller Cooper & Company Ltd
**Small:** (less than 40 professionals)
 Peggy Brady, CPA Selden Fox, Ltd.
 Marvin Hoffman, CPA Bronswick, Reicin, Pollack, Ltd.
 Brian Kot, CPA (Vice Chair) Cray Kaiser Ltd CPAs
 Joshua Lance, CPA Joshua Lance CPA, LLC

**Educators:**

John Hepp, CPA University of Illinois at Urbana-Champaign

**Industry:**

Rose Cammarata, CPA Mattersight Corp.

 Ashlee Earl, CPA Seaway Bank and Trust Company

 Jeffrey Ellis, CPA FTI Consulting, Inc.

 Christopher Hamm, CPA Artex Risk Solutions, Inc.

Marianne Lorenz, CPA AGL Resources Inc.
Michael Maffei, CPA GATX Corporation
Joshua Shenton, CPA Northern Trust Corp.
Richard Tarapchak, CPA Reynolds Group Holdings

**Staff Representative:**

 Gayle Floresca, CPA Illinois CPA Society