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December 1, 2017

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Reorganization* (File Reference No. 2017-280)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Reorganization*.

We support the Board's objective to improve US GAAP by reducing the cost and complexity of applying the consolidation guidance. We believe the proposed reorganization would address the concerns of some stakeholders that Topic 810 is difficult to navigate and overly complex. However, the costs for many organizations to revise their accounting documentation to align with the reorganized guidance could be significant. Because the existing Topic 810 guidance is well established and familiar to most stakeholders, we ask the Board to consider whether the benefits of the proposed reorganization may outweigh the associated costs.

While we generally support the proposed targeted improvements and clarifications, including moving the guidance for 'Consolidation of Entities Controlled by Contract' to Topic 958 and superseding the research and development guidance in Subtopic 810-30, we have identified specific clarifications that may enhance the understandability of the guidance.

Our recommendations and responses to selected Questions for Respondents are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Angela Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to Selected Questions for Respondents

Question 1:

Would the reorganization of Topic 810 into a new Topic 812 with separate Subtopics for VIEs (Subtopic 812-20) and voting interest entities (Subtopic 812-30) be easier to understand and navigate? If not, please explain what other approaches the Board should consider.

We believe the proposed reorganization would address the concerns of some stakeholders that Topic 810 is difficult to navigate and overly complex. However, the costs for many organizations to revise their accounting documentation to align with the reorganized guidance could be significant. Because the existing Topic 810 guidance is well established and familiar to most stakeholders, we ask the Board to consider whether the benefits of the proposed reorganization may outweigh the associated costs.

Question 2:

Is the guidance for ‘Consolidation of Entities Controlled by Contract’ applicable only for not-for-profit entities and, thus, should be within Topic 958? If not, please explain why.

Yes. We believe that the guidance about ‘Consolidation of Entities Controlled by Contract’ applies only to not-for-profit entities that do not apply the Variable Interest Entity Subsections of Topic 810. Therefore, we believe that the Board should relocate to Topic 958 the guidance about ‘Consolidation of Entities Controlled by Contract’ and consider referring to that guidance in paragraph 812-10-05-3.

Question 3:

Is the consolidation guidance for research and development arrangements currently in Subtopic 810-30 not used in practice and, therefore, should be superseded? If not, please explain why or why not and the types of transactions that may still be within the scope of that Subtopic.

Yes. We support superseding the guidance in Subtopic 810-30 about research and development arrangements. We believe that the general consolidation guidance in US GAAP is sufficient to address these arrangements.

Question 4:

Are there any areas or items in proposed Topic 812 that, as reorganized or clarified, are difficult to understand? If so, please describe the areas or items and explain why they are difficult to understand.

Yes. We believe that the Board should clarify certain paragraphs in proposed Topic 812.

Proposed paragraph 812-20-05-3	<p>We believe the Board should further clarify <i>expected losses</i> and <i>expected residual returns</i> by using language that better explains the mechanics of a probability-weighted cash flow analysis, as marked.</p> <p>Rather, at a high level, expected losses represent the <u>aggregate</u> negative (downside) variability <u>when comparing the entity’s individual cash flow scenarios with from the probability-weighted average of a series of probability-weighted those cash flow</u></p>
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	<p>scenarios to each of those cash flow scenarios. Conversely, expected residual returns represent the <u>aggregate</u> positive (upside) <u>variability</u> when comparing the <u>individual cash flow scenarios with</u> from the <u>probability-weighted</u> average of those scenarios. Because each term suggests variability from a <u>probability-weighted</u> average of positive and negative scenarios, variable interest holders always will be exposed to expected losses and expected residual returns of a legal entity, even in instances in which all cash flow scenarios are profitable.</p>
<p>Proposed paragraph 812-20-25-16</p>	<p>We support the Board’s proposal to replace <i>required</i> with <i>compelled</i> for the reasons stated in paragraph BC14 in the Basis for Conclusions. However, we believe that the guidance may imply that an implicit variable interest is limited to situations in which the reporting entity is ‘economically compelled’ to protect a variable interest holder. We recommend that the Board modify the proposed language:</p> <p style="padding-left: 40px;">For example, an implicit variable interest may exist if the reporting entity <u>intends or is compelled (economically or otherwise)</u> to protect a variable interest holder in a legal entity from absorbing losses incurred by the legal entity.</p>
<p>Proposed Subtopic 812-20</p>	<p>We suggest the Board specifically identify whether each instance of the terms ‘participating rights’ and ‘kick-out rights’ refers to the voting interest or the variable interest definition. We believe this is particularly important in Subtopic 812-20 because it may not be intuitive to stakeholders that a voting interest entity definition should sometimes be used in the Variable Interest Entity Subtopic.</p>
<p>Proposed paragraph 812-30-15-1</p>	<p>We believe the Board should clarify that not-for-profit entities should consider the guidance in 958-812, specifically when the entity is a general partner or a limited partner in a for-profit limited partnership or similar legal entity.</p>

<p>Section B – paragraphs 323-10-30-2, 323-10-35-7, 323-10-35-9, 450-20-55-4, 505-10-60-4, 805-20-35-8, 815-40-15-5C, 830-30-40-1A to 40-2, 850-10-60-5 to 60-6, 910-812-45-1, 930-812-45-1, 932-812-45-1, 932-323-45-1</p>	<p>A number of proposed conforming amendments refer to guidance in Subtopic 812-30. Much of the guidance in those references also exists in Subtopic 812-20. We believe the Board should refer to Subtopics 812-20 and 812-30 when the transaction being evaluated could be associated with a voting interest entity or a variable interest entity.</p>
<p>Proposed paragraph 812-20-25-32</p>	<p>We believe the Board should add a reference to the additional guidance about ‘Assessing Individual Noncontrolling Rights’ beginning in paragraph 812-20-55-75.</p>
<p>Proposed paragraph 812-20-25-53 – last sentence</p>	<p>We believe the Board should replace the word ‘level’ with ‘significance’.</p>
<p>Proposed paragraph 812-10-05-04 – last sentence</p>	<p>We believe the Board should change the first reference to Subtopic 812-20 to Subtopic 812-30 (voting interest entities).</p>

Question 5:

Given that the Board does not anticipate changes to accounting for consolidation or changes in outcomes reached as a result of the amendments in this proposed Update, should transition guidance be provided? If so, please explain what changes in this proposed Update may cause changes in practice or outcomes.

Yes. We believe the Board should provide transition guidance. While we have not identified specific situations in which the proposed amendments would change consolidation conclusions, applying the proposed clarifications and removing guidance from Topic 810 may have unforeseen outcomes for some reporting entities.

Question 6:

Do you agree with the proposed transition requirements in paragraph 812-30-65-1? If not, what transition approach would be more appropriate?

No. We believe the proposed transition requirements may place an undue burden on entities that are adopting ASU 2015-02 for the first time in calendar 2017, as they would be required to adopt that ASU and the proposal at the same date and using the same transition method. We believe the Board should establish public and private company effective dates on which entities would adopt the proposal (independent of when an entity adopted or will adopt ASU 2015-02) and require modified retrospective application as of the beginning of the annual period of adoption. We also believe the Board should allow early adoption.

Question 7:

Should a reporting entity be required to provide the transition disclosures specified in the amendments in this proposed Update? Should any other disclosures be required? If so, please explain why.

Yes. We believe that the transition disclosures are appropriate.

Question 8:

Should the effective date be the same for both public business entities and entities other than public business entities?

No. We believe that the Board should provide an optional deferred effective date for private companies and allow early adoption.