

October 9, 2013

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

Re: File Reference No. PCC-13-02

Dear Ms. Cospers:

McGladrey LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Consolidation (Topic 810), Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements* (the "proposed Update"). Overall, we support the FASB's efforts to provide an alternative for private companies in applying the variable interest entity model. The current requirement to apply the variable interest entity model to common control leasing arrangements is costly, and in many cases (as is mentioned in the proposed Update), results in consolidations that are not relevant to many users of private company financial statements.

We believe the proposed Update will reduce overall costs and complexity for private companies that adopt the proposed alternative and still result in users of private company financial statements receiving information that is decision-useful. Our responses to certain of the "Questions for Respondents" on which specific comment is sought and comments and suggestions on other matters in the proposed Update are included below for your consideration.

Comments on Certain Questions for Respondents

Question 1: *Please describe the entity or individual responding to this request. For example:*

- a. *Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.*
- b. *If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).*
- c. *If you are a public accountant, please describe the size of your firm (in terms of the number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.*
- d. *If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, surety, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.*

McGladrey LLP is a national CPA firm that serves hundreds of public companies and thousands of private companies in a variety of industries. We focus primarily on serving middle market companies and public sector entities.

Ms. Susan M. Cospers
Financial Accounting Standards Board
File Reference No. PCC-13-02
October 9, 2013
Page 2

Question 2: *Do you agree that the accounting alternative in the proposed Update should apply to all entities except public business entities, not-for-profit entities, or employee benefit plans within the scope of Topics 960 through 965 on plan accounting? If not, what type of entities should not be included in the scope of this accounting alternative?*

We agree the proposed alternative should apply to all entities with the exception of those types listed.

Question 3: *Do you agree that the proposed Update does not apply to public business entities and employee benefit plans because they lack the arrangements that the accounting alternative addresses? If not, please describe the arrangements that exist for those types of entities that the Board should consider in determining whether any public business entities or employee benefit plans should be included in the scope of the proposed accounting alternative.*

We do not believe that public business entities and employee benefit plans have the type of arrangements that are addressed by the proposed accounting alternative. We are not aware of any arrangements that exist for those types of entities that should be included in the scope of the proposed accounting alternative.

Question 4: *Do you agree with the required criteria for applying the proposed accounting alternative? If not, please explain why.*

We agree with the proposal, but believe the concept of “common control,” as used in paragraph 810-10-15-17A, criterion (a), may require definition. Public companies are continuing to utilize the common control definition in paragraph 3 of EITF Issue 02-5, “*Definition of “Common Control” in Relation to FASB Statement No. 141*”; however there was never a final conclusion on the issue and therefore the definition is not currently included in the codification. We recommend the Board revisit this definition, however, as the definition may not be appropriate for private entities and is inconsistent with the definition of “control” in ASC 850-10-20. We further recommend that the Board address whether “controlling financial interest,” as defined in ASC 810-10-15-8 is considered “common control” for the purposes of the proposed Update.

Additionally, we note the definition of “immediate family” in ASC 850-10-20 differs from the definition of “immediate family” in paragraph 3 of EITF Issue 02-5. We recommend the Board develop a definition of “immediate family” for purposes of this proposed Update. In developing that definition, we recommend the Board consider expanding any definition to include other family relationships. We are aware of structures in which entities are established for tax and estate planning purposes that exist between, for example, a married couple owning a private company and their adult children or siblings owning a leasing company.

Question 5: *Do you agree that paragraph 810-10-55-9, which describes the effects of guarantees and joint and several liability arrangements related to a mortgage on the lessor’s assets, provides sufficient guidance to clarify what constitutes a supporting leasing activity for applying paragraph 810-10-15-17A(c)? If not, please explain why.*

We agree.

Ms. Susan M. Cospers
Financial Accounting Standards Board
File Reference No. PCC-13-02
October 9, 2013
Page 3

Question 6: *Do you agree that the following additional disclosures about lessor entities should be provided if a private company elects the proposed accounting alternative? If not, please explain why.*

- a. *The key terms of the leasing arrangements*
- b. *The amount of debt and/or significant liabilities of the lessor entity under common control*
- c. *The key terms of existing debt agreements of the lessor entity under common control (for example, amount of debt, interest rate, maturity, pledged collateral, and guarantees)*
- d. *The key terms of any other explicit interest related to the lessor entity under common control.*

Should other disclosures be required as a result of applying this alternative?

We agree with the proposed disclosures for lessor entities electing the proposed accounting alternative.

Question 7: *Do you agree that, generally, the primary purpose of establishing a separate lessor entity in a private company setting is for tax and estate-planning purposes and not to structure off-balance-sheet debt arrangements? If not, please explain why.*

We agree that in most cases the separate lessor entities are set up for tax and estate-planning purposes; however, this is not always the case. We also believe that given the access to additional information that is generally afforded to the primary users of private company financial statements, the required disclosures would address any concerns that they may have regardless of the purpose of establishing the lessor entity.

Question 8: *Would the proposed accounting alternative, including the required disclosures, address private company stakeholder concerns about relevance of consolidated information without causing a proliferation of the use of lessor entities to avoid reporting assets and liabilities for which the reporting entity is responsible? If not, why?*

We believe the proposed accounting alternative would represent an improvement over current accounting requirements and would address concerns about relevance of consolidated information. We do not believe the alternative would lead to a “proliferation” of the use of lessor entities to avoid reporting assets and liabilities. If such a “proliferation” were to occur, we believe the proposed disclosures would address any concerns more meaningfully than consolidation.

Question 9: *Do you agree that the proposed accounting alternative, when elected, is an accounting policy election that should be applied by an entity to all current and future lessor entities under common control that meet the criteria for applying this approach?*

We agree the proposed accounting alternative, when elected, should be required to be applied to all current and future lessor entities. We do not believe the alternative should be available on an individual lessor entity basis.

Question 10: *Do you agree that the proposed accounting alternative should be applied using a full retrospective approach in which financial statements for each individual prior period presented and the opening balances of the earliest period presented would be adjusted to reflect the period-specific effects of applying the proposed amendments?*

We agree with a full retrospective transition approach. We do not believe it would be overly difficult to unwind the effects of previous consolidation.

Ms. Susan M. Cospier
Financial Accounting Standards Board
File Reference No. PCC-13-02
October 9, 2013
Page 4

Question 11: *When should the proposed alternative accounting be effective? Should early application be permitted?*

We believe the alternative accounting method should be effective immediately and entities should be allowed to adopt the guidance for all financial statements that have not yet been made available for issuance. As noted in the proposed Update, the current guidance results in consolidations that, in many cases, are not relevant to many users of private company financial statements.

Question 12: *Do you agree that the example that is codified in paragraphs 810-10-55-87 through 55-89 (described in paragraphs BC19 through BC20 of this proposed Update) should be removed? Do you agree that the removal of the example would not significantly affect public business entity stakeholders? If not, please explain why.*

We do not believe the example should be removed. While it would obviously not apply in situations where private companies elect to use the alternative it still will be useful and relevant in situations where entities either (a) are not eligible to apply the accounting alternative or (b) elect not to do so.

For the same reason, we recommend that paragraph 810-10-25-48 not be deleted.

Question 13: *The PCC considered two other alternatives (as described in paragraphs BC15 through BC18 of this proposed Update) to clarify the application of VIE guidance to common control leasing arrangements.*

- a. *Would either of those alternatives better address the concerns raised by private company stakeholders?*
- b. *Should the PCC and the Board consider either of those alternatives in conjunction with the guidance in this proposed Update to better address the concerns raised by private company stakeholders?*

We believe the proposed alternative is superior to the two alternatives discussed in paragraphs BC 15 through BC 18 and do not believe those alternatives require any further consideration.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Richard Stuart (203.905.5027).

Sincerely,



McGladrey LLP