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October 11, 2013

Technical Director  
File Reference No. PCC-13-02  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

via e-mail to [director@fasb.org](mailto:director@fasb.org)

Re: File Reference No. PCC-13-02

Thank you for allowing us to provide our views on the Private Company Council's (PCC) August 22, 2013 Proposed Accounting Standards Update to *Consolidation (Topic 810): Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements* (the "Update").

We appreciate the PCC's efforts in allowing private companies to assess the option to consolidate variable interest entities ("VIE") involving a leasing arrangement with the primary beneficiary. The consolidation of the lessor entities can distract the users of the financial statements from the operations of the primary beneficiary because the dollar amount of the leased assets added to the balance sheet is often material in relationship to total assets of the operating entity. The current standards are generally burdensome on private companies, thus the options offered in the Update are welcomed.

Following are our responses to each of the questions posed.

**Question 1:** *Please describe the entity or individual responding to this proposed Update.*

**Response:** We are a professional service organization specializing in accounting, auditing, tax, and business consulting services. We have offices in Manhattan and Long Island and are ranked among the Top 100 largest firms in the U.S. by both INSIDE Public Accounting and Accounting Today. Our client base includes both public and private entities, as well as not-for-profit organizations.

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**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?*

**Response:** We have no objection to the exclusion of these entities, and note no others that we think should be excluded.

**Question 3:** *Do you agree that the proposed Update does not apply to public business entities and employee benefit plans because they lack 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.*

**Response:** We agree that the proposed Update should not apply to public business entities and employee benefit plans; however there could be certain instances where a public company is closely held and leases a facility from a related party under common control, thereby creating an arrangement that the accounting alternative addresses.

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

**Response:** We have no objection to the required criteria as proposed.

**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.*

**Response:** We agree that paragraph 810-10-55-9 provides sufficient guidance.

**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)*

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*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?*

**Response:** We agree the above disclosures should be provided. In addition, we believe proposed subparagraph ASC 810-10-50-2AD(a) should be clarified to state explicitly that the key terms of the leasing arrangements to be disclosed include those required by ASC 840-10-55-40.

**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.*

**Response:** We agree that purpose of establishing a separate lessor in a private company setting is for tax and estate-planning purposes in addition to safe guarding the underlying assets in each of the respective entities. We believe the primary purpose is not to structure off-balance-sheet debt arrangements.

**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?*

**Response:** We acknowledge that the adoption of the Update could lead to some companies using lessor entities to avoid reporting assets and liabilities on their balance sheet. There might be risk of lessor entities being used to move equipment and other long-lived assets off-balance-sheet in particular, as arguably there are fewer lessor entities established for tax and estate-planning purposes for equipment currently than for real estate. However, if a company's motivation is to move equipment off-balance-sheet, it can structure leases under existing lease standards to avoid capitalization. We do not believe that the proposed accounting alternative gives entities sufficiently more ability to do so than under current standards, and the disclosure requirements under the proposed accounting alternative are sufficient to preclude entities from substantially benefiting from such practice. Therefore, we do not believe this would cause a proliferation of the use lessor entities to avoid reporting assets and liabilities for which the reporting entity is responsible.

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**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?*

**Response:** We agree that the proposed accounting alternative, when elected, should be an accounting policy election that should be applied by an entity to all current and future lessor entities under common control to maintain consistency of financial reporting.

**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?*

**Response:** We agree that the proposed accounting alternative should be applied using a full retrospective approach to ensure comparability from period to period.

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

**Response:** We believe the proposed alternative should be effective for years ending after December 15, 2014 so companies can study the financial reporting impact of this proposed alternative and consider the impact on existing debt covenants and other terms of agreements in place. We believe early adoption should be permitted.

**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.*

**Response:** We agree that the examples in paragraphs 810-10-55-87 through 55-89 should be removed to ensure there is no confusion between the proposed Update and the codification.

**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?*

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**Response:** The two alternatives address the application of the current guidance; therefore we do not believe those alternatives better address the overall concerns of the stakeholders. We do not believe the PCC and the Board should consider either of the alternatives in conjunction with the guidance in this proposed Update.

Thank you for your kind consideration of our responses.

Sincerely,

GRASSI & Co., CPAs, P.C.

A handwritten signature in black ink, appearing to read 'L. C. Grassi', is written over the printed name and title.

Louis C. Grassi, CPA, CFE  
Managing Partner