



October 11, 2013

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

Re: File Reference No. PCC-13-02 Exposure Draft of the Proposed Accounting Standards Update – Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements – Consolidation (Topic 810)

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, as well as government authorities, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

Overall Comments – We are supportive of the FASB's and PCC's continuous efforts in addressing concerns of private company stakeholders. Specifically, we support FASB's and PCC's intentions to exempt specified private companies from applying variable interest entity (VIE) guidance to a lessor under common control. Many private companies incur significant costs to perform the VIE assessment and consolidate a lessor entity under common control only to realize that their financial statement users find such information irrelevant and want it reversed. Accordingly, we believe that providing for an accounting alternative under this proposal, together with providing additional disclosures about a lessor entity under common control, would be meaningful for users of the private company financial statements while alleviating unnecessary costs and resources for private companies preparing these financial statements.

While we generally agree with this PCC proposal, we have identified certain suggestions and areas for further consideration. Specifically, we recommend that the FASB clarify or define "common control", as it relates to this proposal, to include relationships involving family members (for scope purposes). See our response to Question 4 for further discussion of this matter.

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Other comments related to questions for respondents:

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?

In general, we agree. Not-for-profit entities already substantially excluded from the scope of VIE guidance in US GAAP and employee benefit plans within the scope of Topics 960 through 965 on plan accounting should also be excluded from the scope of the accounting alternative in this proposal. However, we are concerned with private companies that have municipal bonds (as conduit debt obligor) outstanding being included in the scope of “public business entities”. We are aware of such operating entities (with municipal bonds) that also have lessor entities under common control that would otherwise be allowed to use this accounting alternative. We do not believe such privately held entities with municipal bonds should be excluded from scope.

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.

Yes, we agree. In our experience, employee benefit plans would rarely, if ever, have these types of arrangements in practice. While we cannot say that a plan would never enter into this type of arrangement, we have not seen this transaction in practice.

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

In general, we agree. However, there are often situations where entities that are set up for tax and estate planning purposes e.g., mother and father own a private company while a leasing company is owned by their adult child, adult grandchild, adult sibling, or perhaps even their parents – may not necessarily meet the definition of “control” as described in ASC 850-10-20. If that is the case, we recommend that the FASB consider expanding the definition or scope of “common control” in this proposal to include other family relationships. We suggest the Board revisit the definition of “immediate family” (as defined in Glossary in ASC 850-10-20) to clarify the relationships to be included in the scope of the final standard. These other family relationships result from the formation of entities solely for tax and estate planning purposes. Therefore, such family related entities should be included in the scope of the final standard. The condition of “influence” exists in these family relationships where “control” may not.

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Further, we have observed that this PCC proposal uses the term “common control”, yet that specific definition does not exist in the Codification. We realize that the EITF previously discussed the definition of “common control” but did not reach conclusion in EITF Issue 02-05 “Definition of “Common Control” in Relation to FASB Statement No. 141”. We are also aware that SEC registrants continue to rely on that definition of “common control”, as described in paragraph 3 therein. Therefore, we suggest that the FASB consider defining the term “common control” to clarify its meaning for purposes of this ASU. This SEC definition of common control, and even immediate family member (also in paragraph 3), should not be considered authoritative in a private company accounting standard, yet many will look to this definition as it is the only one available. Also, these SEC definitions are not consistent with the definitions of “control” and “immediate family” in ASC 850-10-20. Further, the Board should also indicate whether “controlling financial interest” as defined in ASC 810-10-15-8 is considered “common control”. Diversity in practice will be substantial if these issues are not addressed.

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 that the additional disclosures included in this PCC proposal would provide decision useful information for users of private company financial statements and would not be costly for private companies to implement.

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.

Yes, we agree. Other business and family reasons include considerations of legal liability exposure, asset diversification, exit and retirement planning.

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?

Yes, we believe this proposal addresses private company stakeholder concerns and will not cause a proliferation of lessor entities for the purpose of avoiding reporting assets and liabilities for which the reporting entity is responsible. Even before FIN 46R was effective; this was not the purpose in establishing these entities under common control for private companies.

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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?

Yes, we agree.

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?

Yes, we agree.

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

We believe early application 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.

We recommend that the Board further consider how the removal of this example would impact public business entity preparers relying on this current guidance, as well as those private company preparers that do not elect the proposed accounting alternative, and their stakeholders.

Thank you very much for considering our thoughts.

Sincerely,



Glenn Bradley, CPA, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs