



October 14, 2013

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

Dear Ms. Cospers:

PricewaterhouseCoopers LLP is one of the largest providers of audit, tax and other professional services to private companies in the United States. We appreciate the opportunity to comment on the proposed Accounting Standards Update, *Consolidation (Topic 810) - Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements, a proposal of the Private Company Council* (the “proposed standard”).

We acknowledge that this particular aspect of the consolidation guidance related to variable interest entities—that is, the identification and analysis of implicit variable interests and their impact on the primary beneficiary analysis—has been challenging to apply in practice. As noted in our comment letter on the Board’s Invitation to Comment on the Private Company Decision-Making Framework, we believe that in most cases the financial reporting that is relevant to users of public company financial statements is also relevant to users of private company financial statements. In addition, modifications to the recognition and measurement guidance for private companies should be rare and limited to instances where users of private company financial statements have clearly different information needs than users of public company financial statements. For these reasons, we recommend there be a broader reconsideration of this aspect of the consolidation guidance with a goal of issuing revised guidance for common control leasing arrangements that would apply to all entities.

With respect to the consideration of lessor entities in common control leasing arrangements, in both the public and private company context, we find conceptual merit in a model where the lessee entity would not be considered the primary beneficiary with respect to a commonly controlled lessor entity. Our view is based on the following:

- The holder of the controlling financial interest will generally not be different under the VIE and voting interest models. Under the voting interest model, the parent that controls both the lessee and lessor entities would generally consolidate the lessor entity; similarly, under the VIE model we would generally expect the parent to be the primary beneficiary of the lessor entity.



- Whatever rights the lessee entity may have with respect to the leased property could be unilaterally removed by the controlling owner. Thus, particular elements of “power” should be disregarded in the primary beneficiary analysis. (The concept of disregarding transactions or arrangements between entities under common control can be found in other US GAAP.)
- The controlling owner would have a direct explicit variable interest in the lessor entity. Therefore, the “tie-breaker” related party guidance in ASC 810-10-25-44 would not apply to the primary beneficiary analysis and the controlling owner (of both the lessor and lessee) would generally be the primary beneficiary with respect to the lessor entity based on the power and losses/benefits criteria in ASC 810-10-25-38A.

Accordingly, in concept the broader amendment of ASC 810-10-25-38 that we recommend the board consider for all entities should provide a presumption that the common parent has a controlling financial interest in both the lessor and lessee entities, unless substantive unrelated third party interests in the lessee entity indicate that the common parent does not have the unilateral power to change the rights that the lessee has with respect to the leased property (i.e., it would be inappropriate to disregard the variable interest represented by the lease). This approach would significantly reduce the cost and complexity to preparers while continuing to meet the needs of users.

Our recommendation is similar to the primary beneficiary alternative considered by the PCC, which is described in paragraph BC 17 of the proposed standard. In rejecting that alternative, the PCC concluded that it would fail to address cost and complexity concerns because it focuses on the “last step” of the VIE model. Based on our experience, in practice the VIE guidance is not applied in strict sequential order. Rather, entities choose the shortest path to a conclusion as to which party has the power to direct the most important activities with respect to the entity. Our recommended alternative—that the common parent is presumed to control both the lessee and lessor entities—along with the proposed disclosures under ASU 810-10-50-2AD will address those cost and complexity concerns.

In conclusion, we believe that the economics of transactions and arrangements should be reflected in the financial statements regardless of how the enterprise has chosen to access capital. We are not convinced that there are clear differentiators between the needs of users of public company and private company financial statements with respect to applying the VIE guidance to common control leasing arrangements. We therefore recommend that the FASB explore changes to the model for both public and private companies. We advocate the simplification of accounting standards for all preparers where the revised standards reasonably reflect the economics of a transaction.



If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152, John Bishop at (973) 236-4420, Kirsten Schofield at (973) 236-4054, or Ashima Jain at (408) 817-5008.

Sincerely,

PricewaterhouseCoopers LLP