

October 14, 2013

**SENT VIA EMAIL**

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

File Reference: PCC-13-02, *Consolidations (Topic 810), Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements*

Dear Ms. Cospers:

Moss Adams LLP is pleased to provide a response to the Financial Accounting Standards Board's Proposed Accounting Standards Update *Consolidations (Topic 810), Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements* (the "proposed Update").

**Moss Adams LLP** is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,000, including more than 260 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit and governmental organizations.

We appreciate the efforts of the Private Company Council (PCC) and the Financial Accounting Standards Board (the Board) to simplify generally accepted accounting standards for private companies, and encourage the Board to consider ways to also simplify accounting and disclosure requirements for public companies.

We believe the Board should provide a clear definition of "common control" as used in criteria listed in paragraph 810-10-15-17A. There is currently no definition of this term included in the Master Glossary and without such it could be widely interpreted, resulting in misapplication of the proposed accounting alternative.

The required disclosures in the proposed accounting alternative would, in some circumstances, require additional effort for both the preparers and auditors over what is currently required. In most circumstances, these additional efforts may not be substantial, but we do anticipate some situations where current U.S. GAAP would be less burdensome. If the reporting entity is required to include additional disclosures for lessor entities under common control, the financial statement preparer would need to compile complete and accurate information for the required disclosures. Under

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current U.S. GAAP there are circumstances where lessor entities under common control that do not meet the criteria to be considered a variable interest entity. Often these entities may not maintain their books and records on a basis consistent with U.S. GAAP and the proposed accounting alternative would increase the time and effort needed by both preparers and auditors in such situations.

Additionally, we encourage the Board to consider whether the guidance in this proposed Update should be applicable to both public and private entities. While leasing entities under common control may not be as common in public business entities, by maintaining the same recognition and measurement treatment, the Board would not be introducing differences between private entities and public business entities.

Consistent with our comments on the three prior PCC related proposed accounting standard updates, we are concerned with the lack of consideration given by the PCC and the Board to the possibility that a private company within the scope of the proposed Update may no longer be within the scope of the accounting alternative at a future date. This may arise when a private company becomes a public company, or if regulatory requirements do not permit application of the accounting alternative, among other circumstances. We believe the lack of guidance in the proposed Update with respect to "undwinding" the accounting alternative needs to be addressed for all PCC related proposals by the PCC and the Board. All of the proposals currently issued by the PCC are subject to the same concern, and lack of sufficient guidance in this area may reduce the number of private entities that would otherwise apply the guidance in these proposed Updates. We strongly encourage the FASB and the PCC to quickly clarify how an entity should unwind its application of the accounting alternatives when it is either no longer in the scope of the guidance or is required by a financial statement user to no longer apply the proposed accounting alternative.

Our response and related comments to the specific questions included within the proposed Update are contained in the Attachment to this letter.

We would be pleased to discuss our comments with the Board members, the PCC members, or the FASB staff at your convenience. If you would like to discuss our comments or have any questions, please contact Bret Rutter in our Professional Practice Group at 206-302-6800.

Yours truly,



Enclosures



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#### ATTACHMENT

The following are responses to selected questions in the proposed Update:

**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 that the accounting alternative should apply to private companies as the purpose of this proposed Update was in connection with the work of the Private Company Council (PCC) and believe that changing the scope at this point would cause delays in providing relief to private companies. However, we also believe the Board should further consider whether this accounting alternative for common control leasing arrangement with variable interest entities (VIEs) should also be applicable to public business entities.

While common control leasing entities are not as common in public companies, by maintaining the same recognition and measurement treatment of such entities the Board would be reducing the differences between private and public companies reporting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The Board should perform further outreach with public companies and users of public company financial statements to determine if Topic 810 should be amended to maintain consistency with any private company alternative should this proposed Update or a variation of it become U.S. GAAP.

**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.**

See response to Question 2.

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

The criteria listed in paragraph 810-10-15-17A notes that the guidance should apply when the private company and the legal entity are under common control. Currently there is no definition of common control in the Master Glossary. It is unclear whether the Board intended for the proposed Update to apply to situations in which the reporting entity and leasing entity (meeting criteria (b) and (c) in paragraph 17A of the proposed Update) are commonly controlled by the following:

- immediate family members
- related parties
- parties who hold significant influence

Due to the varying nature of arrangements and ownership structures, we believe it will be imperative to provide a clear definition of “common control” to ensure consistent understanding of when the proposed Update may be applied.

**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 believe paragraph 810-10-55-9 provides guidance to clarify how the specific guarantee and joint and several liability arrangements should be considered supporting leasing activities, but believe the Board should provide additional discussion and examples of other common arrangements (e.g. purchase options, management service arrangements, etc.) to more clearly indicate whether additional arrangements could be considered supporting leasing activities in applying paragraph 810-10-15-17A(c).

**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?**



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We agree the additional disclosures are appropriate when the alternative in this proposed Update is elected.

We recognize the disclosure requirement included in item b. and c. go beyond current required disclosures for related parties and circumstances where the reporting entity holds a variable interest in a VIE but is determined to not be the primary beneficiary. We believe a financial statement user's decision making ability could be impaired by not providing transparency about the liability balances and key terms of the commonly controlled leasing entity.

It is unclear whether the Board has considered the amount of time and effort these disclosures will require of both preparers and auditors. Disclosure of the debt, including key terms, and other significant liabilities of the lessor entity under common control will increase a reporting entity's time and effort in preparing its financial statements to a small degree and require additional audit procedures to be performed to test for the completeness and accuracy of the disclosure. While in some circumstances the additional efforts of both preparers and auditors may not be significant there will be situations where these efforts may be equal to or exceed efforts necessary under existing U.S. GAAP.

Additionally, the proposed Update is unclear as to whether entities that are adopting the accounting alternative are still subject to the VIE disclosures in ASC 810-10-50. We believe it is the intent of the Board that such disclosures would not be required when this accounting alternative is elected. If that is the Board's intent, we ask that the Board clarify that the VIE disclosure requirements in ASC 810-10-50 are not applicable when this accounting alternative is elected through either a specific exclusion in ASC 810-10-15-17A or in the related application guidance.

**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 separate lessor entities under common control are often formed for tax and estate planning purposes and not to structure off-balance-sheet debt. Such entities may also be formed to protect certain assets from legal or other business risks. There could be additional reasons for the legal structuring of a separate lessor entity under common control, but overall we do not feel that private companies are establishing a separate lessor entity 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?**

We do not believe that the proposed accounting alternative would cause private companies to increase their use of common control lessor entities to avoid reporting assets and liabilities for which the reporting entity is responsible, or shift assets and liabilities of the reporting entity to existing lessor entities.



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However, we believe there are two opposing perspectives as to whether this proposed alternative addresses private company stakeholder concerns. We believe there is significant support for this proposed accounting alternative from the owners and financial statement preparers of owner operated and family owned private companies as it would reduce cost and complexity of their financial reporting in accordance with U.S. GAAP. However, there are certain financial investors and lenders who feel this proposed alternative will increase the cost and complexity to evaluate the financial condition and performance of private companies, even with the additional disclosures required under the proposed accounting alternative. We encourage the Board to further consider the impact to financial investors and lenders, and other financial statement users, as this proposed accounting alternative may negatively impact their ability to compare multiple private companies to one another, or to a benchmark, when some have elected the proposed accounting alternative, some have not, and yet others are not eligible to elect it at all. We believe there may be other alternatives that could provide relief to preparers of private company financial statements at a lesser impact to users of financial statements; one such alternative is discussed in our response to question 13.

**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 that this is an accounting policy election that should be applied to all current and future lessor entities under common control. We ask that the Board address the appropriate accounting, presentation and disclosure in circumstances when an entity is no longer within the scope of the proposed Update or has a financial statement user requirement to prepare financial statements that do not permit the proposed accounting alternative.

**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 that the proposed Update should be applied using a full retrospective approach.

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

The Board should provide one year from the issuance of the final ASU for the guidance to be effective. A one year period will provide sufficient time for reporting entities to consider the impact of electing the accounting alternative. Additionally, early application of the accounting alternative should be permitted, as the negative consequences of early application would be outweighed by the benefits to certain entities within the scope of the proposed Update.

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**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 believe this example should not be removed from ASC 810. This example could apply to some public companies and it would be beneficial for private companies that do not elect the accounting alternative in this proposed Update.

**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 do not feel that either of these alternatives would better address the concerns of private company stakeholders nor should the PCC and the Board spend time further considering these alternatives.

We are uncertain to what degree the Board considered an alternative that would require private companies to consolidate all lessor entities under common control and disclose summary consolidating financial information. We believe such an approach could achieve the objectives of the PCC in reducing the costs currently expended on determining whether an entity is a VIE and who is the primary beneficiary of the VIE as this is a highly qualitative assessment for lessor entities under common control. We believe such an approach would provide transparent financial information to users of private company financial statements and maintain a higher level of consistency among reporting entities. Additionally, we believe differences in private and public entities' accounting for lessor entities under common control could be minimized by modifying the scope of this proposed Update to include both public and private entities with minimal impact on public business entities based on paragraph BC5.