

October 9, 2013

Technical Director, File Reference No. PCC-13-02
Financial Accounting Standards Board
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Sent via e-mail to director@fasb.org

Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB's Exposure Draft on Proposed Accounting Standards Update – Consolidation (Topic 810): Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements, issued August 22, 2013.

We understand the unique needs of users of private company financial statements and would like to commend the FASB for taking on this project. Opportunities to reduce the cost and complexity of preparing private company financial statements in accordance with U.S. GAAP are of great interest to our clients.

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

Response: *Sensiba San Filippo (www.ssfilp.com) is a public accounting firm serving middle-market companies in the San Francisco Bay Area, the majority of which are privately held corporations. We have 14 partners and approximately 90 employees. We perform a full range of assurance and tax services.*

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 agree that the proposed update should apply to all entities except public business entities, not-for-profit entities, and employee benefit plans.*

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?

Response: *We 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.*

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

Response: *We agree with the required criteria for applying the proposed accounting alternative. However, we would request that the FASB further define “substantially all activities” in paragraph 810-10-15-17A(c) to provide additional practical examples of activities that would still allow for the application of this accounting alternative as well as examples of those activities that would go beyond the scope of this accounting alternative (e.g. debt financing or other financial support activities).*

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 to clarify what constitutes a supporting leasing activity for 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 any other disclosures be required as a result of applying this alternative?

Response: *We believe that the above additional disclosures should be provided if the proposed accounting alternative is elected. For disclosure (a), we would request that the FASB provide an expanded definition of the key terms of the leasing arrangement that are expected to be disclosed. Additionally, we believe that the original VIE disclosure guidance in paragraph 810-10-50-5A should be expanded to include all of the above additional disclosures from paragraph 810-10-50-2AD when a VIE leasing arrangement exists. We believe that the current required disclosures when a reporting entity holds a variable interest in a VIE but is not the primary beneficiary are not as robust as the proposed Update’s disclosure requirements.*

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, 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.*

Question 8: Would the proposed accounting alternative, including the required disclosures, address private company stakeholders 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 believe that given the proposed accounting update related to leases, there would be no benefit for a private company to create lessor entities to avoid reporting assets and liabilities as companies will likely be required to report lease agreements on the balance sheet. Irrespective of the adoption of the proposed accounting update related to leases, and due primarily to the disclosure requirements of this proposed update, we believe there will be no significant risk to there being a proliferation of additional use of lessor entities to avoid VIE reporting requirements under existing accounting standards.*

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: *Yes, we agree that the proposed accounting alternative is an accounting policy election that should be applied to all current and future lessor entities that meet the specified criteria.*

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.*

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

Response: *We believe that the proposed accounting alternative should be effective for financial years beginning on or after January 1, 2014. We also believe that early adoption of the proposed alternative should be permitted.*

Question 12: Do you agree that the example that is codified in paragraph 810-10-55-87 through 55-89 (described in paragraph 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 that the codified example should be removed and that its removal would not significantly affect public business entity stakeholders.*

Question 13: The PCC considered two other alternative (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?

Response: *We do not believe that the alternative discussed in BC 15/16 would better address the concerns raised by private company stakeholders; however, we believe that the alternative discussed in BC 17/18 may be a simpler alternative to the proposed update while achieving similar reporting results. We would encourage the PCC and the Board to consider this second alternative combined with expanding the current disclosure requirements to include the disclosures mentioned in paragraph 810-10-50-2AD (a)-(d). We believe that this approach may be simpler but would also expand the required disclosures to better suit the users of financial statements. Regardless of whether the FASB proceeds with the proposed update or considers the alternative discussed by the PCC at BC 17/18, we firmly support the general sentiment of the private company reporting options encompassed throughout the proposed update.*

Thank you for your consideration of our comments. You may contact Scott Anderson at 408-350-1969 or sanderson@ssflp.com for any clarification or questions you may have regarding the above comments.



Sensiba San Filippo LLP