



October 17, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. PCC-13-02

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *FASB 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 ED)*. The amendments in the proposed Update are intended to reduce cost and complexity by providing a private company an option to elect not to apply variable interest entity (VIE) guidance for assessing whether it should consolidate a lessor entity when the company as lessee and the lessor are under common control. It generally would result in private companies electing not to consolidate a lessor entity when the conditions of the amendment are met. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

Our Committee supports the PPC's efforts to provide an option to reduce the cost and complexity of VIE accounting for lessors and private company lessees that are under the control of a common entity.

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

The organization and operating procedures of the Committee are outlined in Appendix A to this letter. However, the majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors, accountants in industry, or in academia.

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?*

We agree with the scope of the ED.

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.

We believe that the proposed Update should apply as an exception to VIE accounting for the entities identified in question 2 above.

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

We are in general agreement with the required criteria. However, we believe that “common control” should either be defined in the master glossary or within the criteria.

We believe that the language in 810-10-55-9, “A guarantee provided by a private company to the lender of a legal entity under common control for a mortgage on the legal entity’s assets used for leasing is considered to be related to the leasing activity of the legal entity,” should be included as bullet *d* in 810-10-15-17A. Also, the last sentence in 810-10-15-17A should be modified to read, “Implementation guidance on what constitutes supported leasing activities is further illustrated in paragraph 810-10-55-9.”

We believe that entities meeting the required criteria should be scoped out of the Codification VIE subsection completely. This path is more straightforward than the one in the ED that provides a narrow exemption to an entity from “consolidation under the guidance in the VIE subsections.” The ED suggests that an entity that meets the criteria for exception would nevertheless be required to evaluate whether a lessor is a VIE, and would be required to provide the disclosures for VIEs.

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 that paragraph 810-10-55-9 provides an operable description of common control leasing arrangements. We suggest that the reference to “*mortgage* on the lessor’s assets” be replaced with the term “*lien*” to incorporate assets other than real estate such as machinery or other equipment. In most leasee/lessor common control arrangements, the lessor holds only the building or other assets leased to the private company which is the operating entity. This means that the lessor has no business activities other than the lease, and consequently there is generally no need to analyze non-lease related activities. We do recommend that paragraph 810-10-55-9 reference the requirements of ASC 460-10.

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 believe that the disclosures are time consuming to prepare, but beneficial to financial statement users. However, we considered whether the disclosures required by Tope 840, *Leases*, and Topic 850, *Related Party Disclosures*, would be adequate, and pose this question to financial statement users. We do not believe that any additional disclosures should be required.

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 have no first-hand experience, but believe that common control leasing arrangements for private companies are generally structured for tax and estate-planning purposes.

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 believe the qualifying criteria and the disclosures required would prevent abuse of the proposed accounting alternative.

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 the alternative should be a permanent accounting policy election.

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 believe that a full retrospective approach is appropriate to provide consistent financial statement presentation.

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

We believe the proposed alternative accounting should be effective for years beginning after December 15, 2013. We believe that early application should be permitted.

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 agree that the example codified in paragraphs 810-10-55-87 through 55-89 should be removed as it contradicts the accounting alternative provided by the ED. Since the

implicit variable interest guidance in section 810-10-25 will not be amended, except as noted in the ED, we recommend that the Board provide an alternative example of implicit variable interests.

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.

Would either of those alternatives better address the concerns raised by private company stakeholders?

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 believe that both of the alternatives in paragraphs BC15 through BC18 would undermine our current understanding and application of VIE accounting. Consequently, we believe the approach taken in the ED is appropriate.

Scott G. Lehman, CPA

Chair, Accounting Principles Committee

Amanda Rzepka, CPA

Vice-chair, Accounting Principles Committee

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Brian Chmiel, CPA	Crowe Horwath LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Robert Sledge, CPA	KPMG LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Christopher Cameron, CPA	Kutchins Robbins & Diamond Ltd
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Gary Mills, CPA	Frost Rittenberg & Rothblatt PC
Tad Render, CPA	Miller Cooper & Company Ltd
Steven Roiland, CPA	Kessler Orlean Silver & Co., PC

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Industry:

Rose Cammarata, CPA	CME Group Inc.
Farah Hollenbeck, CPA	Abbvie
Joshua Lance, CPA	N Pritzker Capital Management LLC
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda Rzepka, CPA (Vice Chair)	Jet Support Services, Inc.
Richard Tarapchack, CPA	Navistar International Corporation

Educators:

Martin Coe, CPA	Western Illinois University
James Fuehrmeyer, Jr., CPA	University of Notre Dame

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
---------------------	----------------------