

Letter of Comment No: 10
File Reference: FSP46RB

Director, TA&I—FSP:

The Accounting and Auditing Committee of The Ohio Society of CPAs met January 11, 2005 to review the proposed FASB Staff Position FSP FIN 46(R)-b, and proposes the following comments for consideration:

- The committee understands that the purpose of the draft is assist in identifying the substance of a variable interest entity, rather than being too reliant on rules; however, the result of this guidance is to make the evaluation of a variable interest entity even more difficult to assess. The committee believes that the Staff Position could benefit from additional assessment guidance, for example:
 - The practitioner should strongly consider consolidation if the following factors or considerations are present:.....
 - Some fact patterns that could influence one’s assessment include:.....
 - It would be especially helpful if the example presented in the proposal would be extended and carried out to a conclusion.

- We believe that there should be an exception to the requirement to consolidate (combine) variable interest entities for real estate only type entities for non-issuers. The primary users of financial statements for closely held companies with a real estate entity are bankers and lenders, who have expressed that they will need supplementary disclosures to “unconsolidated” these entities to correctly evaluate the financial statements. This requirement will affect the terms of loan covenants, ratios calculated by lenders, etc., and does not add value to users.

- Due to the added complication of considering implicit interests, the committee also discussed considering an exception for non-filers from evaluating implicit interests, if disclosure is present. Committee members expressed that footnote disclosures including the amount of assets and related debt outside the corporation should be sufficient to address the needs of users of privately held entities.

If you have any additional questions about the committee’s deliberations, you may contact me at garkjr@infinet.com.

Sincerely,

Glenn A. Roberts, CPA
Chair, Accounting and Auditing Committee
The Ohio Society of CPAs