

From: Ted Skrypek [mailto:TedS@fdcpa.com]
Sent: Wednesday, September 01, 2010 1:18 PM
To: FASB Comments
Cc: Phil Pacino
Subject: New Agenda item -needed before effective date of 11-15-10 for radical new balance sheet format under ASU-2009-17

Dear FASB members,

Attached is a summary of a major issue that will impact the users of most of the financials statements prepared with a consolidated Variable Interest Entity after November 15, 2010.

In summary, many entities will prepare a new balance sheet format that will be expanded from a single column of amounts to two columns. In some cases there may be five columns presented for each year end. This new presentation of balance sheet amounts will be inconsistent from entity to entity, and preparer to preparer. Since the board's presentation concept is completely new to both preparers and users of the financial statements, an inconsistent application will result in the boards intended format to be lost in practice, and any perceived benefit to users, will be lost in the confusion.

I have attached what I have found, based on discussions with other technical compliance practitioners, to be the four most likely formats to be used for the balance sheet presentation of the VIE amounts designated by the board for disclosure on the face of the balance sheets. These formats all have strengths and weaknesses, however only the board can clarify which format best presents the VIE amounts consistent with the boards intent.

Unfortunately, it appears that many practitioners have not addressed this presentation issue, and will either miss it or not implement it consistent with the boards intent. A little practical guidance from the board prior to the effective date will go a long way in helping the profession prepare financial statements that meet the high standards of reporting that the board seeks to develop.

Please contact me with any questions or clarifications that I can help you with.

Thank you,.

Ted Skrypek
Feeley & Driscoll, P.C.
200 Portland Street
Boston, MA 02114
Voice: (617) 742-7788 ext. 430
Direct: (617) 456-2487
Fax: (617) 742-0210
Email: TedS@fdcpa.com
Home Page: <http://www.fdcpa.com>

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To the FASB

September 1, 2010

New Agenda Item related to soon to be effective ASU:

Clarification of Balance Sheet Presentation in ASU 2009-17 December 2009

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

Section 810-10-45-25 – A reporting entity shall present each of the following separately on the face of the statement of financial position:

- a. Assets of a consolidated variable interest entity (VIE) that can be used only to settle obligations of the consolidated VIE
- b. Liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary.

This new balance sheet presentation is probably the most significant change in the balance sheet format in the last 100 years. Unfortunately the above guidance makes it unclear as to what the board's intent was for this new format. There appears to be four options, all of which will take significant education of users of the financial statements that are impacted. Since this Codification accounting standards update is effective beginning with 11-15-10 yearends it is very important that this presentation issue be clarified quickly.

The Four presentation options that appear to meet the standard are very different in how they appear to the user of the financial statement. Use of different presentation formats for the balance sheet by reporting entities will make it difficult for users of the financial statement to understand if the balance sheet is presented in accordance with the board's intent for this new presentation of these specified assets and liabilities of the variable interest entity.

The recent exposure draft related to financial statement presentation format did not address this balance sheet presentation issue, and thus was not useful in helping to determine the boards disclosure intent on the face of the balance sheet for these VIE assets and liabilities.

The four presentation options appear to be:

1. Balance sheet presentation similar to current practice with each year's assets presented in a single column and liabilities in a single column.

- a. The designated VIE assets would be presented as an additional item in the column separate from the consolidated total of all other similar assets, with a total for the total consolidated assets by category. For example:

Cash –VIE only

Cash – other than VIE only

Total Cash

AR–VIE only

AR – other than VIE only

Total AR

- b. The designated VIE liabilities would be presented as an additional item in the column separate from the consolidated total of all other similar liabilities, with a total for the total consolidated liabilities by category. For example:

Notes Payable –VIE only

Notes Payable – other than VIE only

Total Notes Payable

AP–VIE only

AP– other than VIE only

Total AP

- c. The designated beneficial interest would be presented as an additional item in the column separate from the consolidated total of all other similar beneficial interests, with a total for the total consolidated beneficial interests by category. The beneficial interest definition as it may apply to VIE items such as preferred stock or VIE equity classified as minority interest on the consolidated financials also needs to be clarified to apply the boards intent to approximately 90% of the applicable VIE consolidations encountered in non-public financial statements For example:

Preferred stock –VIE only

Preferred stock – other than VIE only

Total Preferred stock

Non controlling interest –VIE only

Non controlling interest – other than VIE only

Total Non controlling interest

2. Balance sheet presentation similar to current practice with each year's assets presented in a single column and liabilities in a single column.

- a. The designated VIE assets would be presented as a parenthetical item in the item description similar to reserve for bad debts. For example:

Cash (VIE only portion \$ XXX)

AR (VIE only portion \$ XXX) (Net of reserve of \$ YYY [VIE only portion \$ XXX])

- b. The designated VIE liabilities would be presented as a parenthetical item in the item description similar to reserve for bad debts. For example:
 Notes Payable (VIE only portion \$ XXX)
 Accounts Payable (VIE only portion \$ XXX)
- c. The designated VIE beneficial interest holders would be presented as a parenthetical item in the item description similar to reserve for bad debts. The beneficial interest definition as it may apply to VIE items such as preferred stock or VIE equity classified as minority interest on the consolidated financials also needs to be clarified to apply the boards intent to approximately 90% of the applicable VIE consolidations encountered in non-public financial statements For example:
 Preferred stock (VIE only portion \$ XXX)
 Non controlling interest (VIE only portion \$ XXX)
3. Balance sheet presentation with each year's assets presented in two columns and liabilities presented in two columns. This would seem to better present the possible board intent to identify the totals of the designated VIE assets, liabilities and beneficial interests to be disclosed, and thus allow users to easily compute alternative ratios and balance sheets that exclude such designated VIE amounts. Additional lines would be added to the face of the balance sheet to disclose intercompany loans that were eliminated in consolidation. Such eliminated intercompany loans are assets and liabilities of the VIE that appear to meet the boards intent for types of VIE assets and liabilities to be separately disclosed. Since these items do not appear as part of the consolidated asset and liability totals, they need to be identified as separate from such totals. This would seem to better present the possible board intent to identify the totals of the designated VIE assets, liabilities and beneficial interests to be disclosed with both gross amounts by classification, and net amounts in total to clearly reconcile such totals to the consolidated amounts, and thus allow users to easily compute alternative ratios and balance sheets that exclude such designated VIE amounts. For example:

	VIE only	Consolidated Total
Cash	100	500
AR	400	3,000
Less eliminated intercompany loan to VIE		
giving rise to parent claims on VIE assets	(300)	-0-
<hr/> Total Assets	<hr/> 200	<hr/> 3,500

Notes Payable	2,000	10,000
AP	300	5,000
Less eliminated intercompany loan to parent		
Giving rise to VIE claims to parent assets	(500)	-0-
<hr/> Total Liabilities	<hr/> 1,800	<hr/> 15,000
Preferred Stock	2,000	2,000
Non Controlling interest	100	500
<hr/> Total Equity	<hr/> 2,100	<hr/> 2,500

4. Balance sheet presentation similar to current practice of presenting consolidating balance sheets in supplemental information. This presentation would need to add an additional column to the traditional consolidating presentation to display only the VIE assets liabilities and equity amounts designated for disclosure by the board – which would reflect the addition or deduction of eliminated intercompany loan balances and any other items not designated for disclosure by the board. The advantage to this 5 column presentation is that it is a balance sheet format that many users of non issuer financial statements have seen many times and are comfortable with its use. Such a presentation may allow users to easily compute alternative ratios and balance sheets that exclude such designated VIE amounts, and also to exclude other VIE balances in such calculations if they so desire. This presentation would seem to maximize use of the balance sheet presentation for user analysis of VIE impact if the boards intent is to meet that goal. This presentation eliminates the need for supplemental consolidating schedules to be attached to the financials, as is done for most of the VIE consolidations for non-public entity financials prepared since FIN 46 became effective. This presentation may be the most useful to users, however it makes the comparative consolidated balance sheet amounts more difficult to compare as each year will likely need its own page of the financials. However, even the single column presentation may add additional pages even with 2 years on one page, as the number of lines will increase by two or three times over the pre FAS 167 presentation. Also, the comparative total VIE and non-VIE amounts are mixed in, making any presentation hard to use for comparative balance sheet analysis. For Example:

	Parent	VIE only	Elimination	Consolidated	VIE
				Total	Only
Cash	400	100		500	100
AR	2,600	400		3,000	400

Building	10,300	3,700		14,000	3,700
Loan to parent	-0-	500	(500)	-0-	-0-
Loan to VIE	300	-0-	(300)	-0-	-0-
Less eliminated intercompany loan to VIE giving rise to parent claims on VIE assets	-0-	-0-	-0-	-0-	(300)
Total Assets	13,600	4,700	(800)	17,500	3,900
Notes Payable	8,000	2,000	-0-	10,000	2,000
AP	4,700	300	-0-	5,000	300
Loan from parent	-0-	300	(300)	-0-	-0-
Loan from VIE	500	-0-	(500)	-0-	-0-
Less eliminated intercompany loan to Parent giving rise to VIE claims on Parent assets	-0-	-0-	-0-	-0-	(500)
Total Liabilities	13,200	1,800	(800)	15,000	1,800
Preferred Stock	-0-	2,000	-0-	2,000	2,000
Non Controlling interest	-0-	100	-0-	500	100
Stock	400	-0-	-0-	400	-0-
Total Equity	400	2,100	-0-	2,500	2,100

Please let me know what the board's intent was for the presentation. The board's position on the presentation will have far reaching impacts on 2010 balance sheet presentations. Also, the board should disclose its intent on the presentation for these VIE amounts to help practitioners evaluate the proposed exposure draft for financial statement presentation as well. The AICPA technical hotline staff, Audit Watch staff, Loscalzo Associates, and the Massachusetts - MSCPA Accounting and Auditing committee members all do not know what the FASB board intent was for this format.