## **FASB PCC 13-02 Consolidation**

Date of Entry: 10/11/2013

## **Respondent information**

Type of entity or individual:

## **Contact information:**

Organization: McNaughton-McKay Electric Company

Name: George E Hampton

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1a.	Please indicate whether you primarily are a preparer, user, public accountant or, if other, please specify.
Prepare	r – Corporate Controller
1b.	If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
	y-held wholesale distributor of electrical/electronic equipment Annual revenue - \$600M- of employees – 700+
1c.	If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
N/A	
1d.	If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.
N/A	
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?
•	are in agreement that this proposed accounting alternative should exclude public not-for-profit entities and employee benefit plans.

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.

Yes we agree with the scope of the type of entities included in the proposed accounting alternative.

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

We agree with criteria 2) the private company has a leasing arrangement with the lessor entity, and 3) substantially all of the activity between the two entities is related to the leasing activity of the lessor entity. However, we disagree with criteria

1) the lessor entity and the private company are under common control. In our particular situation, we meet both criteria #2 and #3 of the proposal; however we do not qualify for the accounting alternative (as proposed) because we have Variable Interest Entities (VIEs) that are not under common control. The lessor entities have been determined to be VIEs based on related party relationships only. There are no guarantees, no obligations to absorb expected losses, no rights to receive expected residual returns and no shared ownership between the entities. However, because of the related party relationships we must still consider the parties VIEs and include them in consolidation. The current proposal appears counterintuitive; that is, VIEs under common control do not have to be consolidated while VIEs not under common control (with potentially less significant variable interest) still have to be consolidated? As a result, we ask the Board to reconsider this proposal to include VIEs of private companies that are not under common control.

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.

Yes we agree with the proposal on what constitutes leasing activity.

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.<br/>br /> 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.<br/>br />Should other disclosures be required as a result of applying this alternative?

Yes, we agree with the additional disclosures required, should the alternative be elected.

7. Do you agree that, generally, the primary purpose of establishing a separate lessor entity is for tax and estate planning purposes and not to structure off-balance-sheet debt arrangements? If not, please explain why.

Yes, we believe that to be the case for VIEs under common control. The primary purpose of VIEs that are not under common control varies greatly. In either case, we don't believe that VIEs of private companies are structured primarily to keep debt arrangements off of the balance sheet.

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?

Yes we agree that this alternative would address private company concerns about relevance of the consolidated information. In our particular situation, the users (creditors) requested our organization to exclude the financial information of our VIEs in our consolidated financial statements so that they could analyze our entity on its own. Due to the cost and complexity that the consolidation of our VIEs caused, we decided to exclude the VIEs and as a result, receive a qualified opinion for the GAAP exception each year we have done so.

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?

Yes, we agree that it should be applied consistently to all current and future lessor entities.

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?

Yes, we agree with the retrospective approach.

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

It should be effective when the standard is finalized with early application permitted. A GAAP exception, excluding VIEs from consolidated financial statements, is often done because users request this method of disclosure. Making the alternative method available as soon as possible could alleviate the cost and complexity resulting from those GAAP exceptions.

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 removal of the example would not significantly affect public business entity stakeholders.

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.<br/>
a. Would either of those alternatives better address the concerns raised by private company stakeholders?<br/>
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?.<br/>
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We feel that the proposal is better than the two other alternatives.

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Update comments. Please provide any additional comments on the proposed Update:

We are disappointed that the proposal is so narrow in scope. We were hopeful that our VIEs would fall under the criteria of the proposal, but the common control requirement is not met. We are asking the Board to reconsider the common control requirement for this alternative. In summary, we currently have a GAAP consolidation requirement that is both costly to private organizations and complex for users (creditors in our case) to understand. As a result, we have several private organizations that have made the decision to exclude VIEs from consolidation and accept a qualified audit opinion on its financial statements. Although we feel that the proposal is a step in the right direction, we feel the scope needs to be expanded.

EFF comments. Please provide any comments on the electronic feedback process: