

October 14, 2013

## Via Email to director@fasb.org

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

## File Reference No. PCC-13-02

Eide Bailly LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, Consolidation (Topic 810): Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements.

We appreciate the efforts of the Private Company Council and the Board to simplify accounting and disclosure requirements in situations such as these where the cost and complexity of application exceeds the benefits to these entities, while still providing decision-useful information to the users of these financial statements.

Our responses to the "Questions for Respondents" for which specific comment is sought are included below for your consideration.

## **Question 1:** Please describe the entity or individual responding to this request. For example:

- a. Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.
- b. 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).
- c. If you are a public accountant, please describe the size of your firm (in terms of the number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
- d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, surety, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

Eide Bailly LLP is a regional public accounting firm serving privately and publicly-held entities from 22 offices in ten states.

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**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?

We agree that the proposed alternative should apply to all entities with the exception of those noted in the proposal.

**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.

We agree that the proposed update does not apply to employee benefit plans because they do not enter into the type of arrangements addressed by the proposed accounting alternative. We believe that certain public entities, primarily smaller public entities, may enter into these types of arrangements; however, the proposed update should not apply to these entities as the same accounting framework and related presentation and disclosure requirements should be required for all public entities, regardless of size.

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

Yes, we agree with the required criteria; however believe that the term "common control" may require definition and/or further consideration in the final update.

**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.

We agree that the paragraph provides sufficient guidance.

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**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.
- e. Should other disclosures be required as a result of applying this alternative?

We agree that the proposed disclosures will provide sufficient information to the users of private company financial statements and should be required for all entities electing the proposed accounting alternative.

**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.

We agree that this is generally the case; however in cases in which there is another purpose, including the possibility of an off-balance-sheet debt arrangement, that the proposed disclosures will provide necessary and relevant information to the users of the financial statements to appropriately consider such an arrangement.

**Question 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 agree that the proposed accounting alternative, including the required disclosures, will effectively address the noted stakeholder concerns. We do not believe that this proposal will result in a proliferation of the use of lessor entities; however even if this were to occur, we believe that the proposed required disclosures will result in more useful result than consolidation of the entities.

**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?

We agree that, when elected, the accounting policy should be applied by the entity to all leasing arrangements meeting the criteria, and should not be available on a lessor-by-lessor or lease-by-lease basis.

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**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?

We agree with the proposed approach for a full retrospective application.

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

We believe that the proposed alternative should be effective for interim and annual periods ending after December 15, 2013; or if a later effective date is adopted, that early application be permitted.

**Question 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 do not agree that the example included in paragraphs 810-55-87 through 55-89 should be removed. While we believe that many, if not most, private entities with these types of arrangements will elect to adopt the proposed accounting alternative, there may also be private entities that choose to continue to apply the current consolidation requirements. Additionally, as noted in our comments above, we believe that there may be smaller public entities with these types of arrangements. As such, the example will continue to provide meaningful guidance to the preparers of those financial statements.

**Question 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.

- 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?

We believe that the proposed approach is a clearly superior approach to the other alternatives considered.

Once again, we appreciate the opportunity to comment on this proposal. We would be pleased to discuss our comments with the FASB or PCC staff. Please direct any questions on our comments to Brian Bluhm, Director of Assurance Services, at 612.253.6590.

Sincerely,

**Eide Bailly LLP** 

Esde Sailly LLP