October 14, 2013

Submitted via email: 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

## Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update, *Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements: Consolidation (Topic 810)*. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

While we support the Financial Accounting Standards Board's (Board) efforts to address the needs of preparers and users of private company financial statements, the responses below are not intended to convey either support or opposition to the Board's establishment of the Private Company Council (PCC) or the PCC's intended authority and responsibilities. While we generally support any action by the Board that improves the standard setting process for private companies, we acknowledge that certain constituencies do not believe the current plan does enough to solve the problems of private company standard setting and believe a separate standard setting body, independent of the Board, should set accounting standards for private companies.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Josh Ayers, TIG Chairman (jayers@stonecarlie.com).

Sincerely,

Joshua A. Ayers, CPA

TIG Chairman

MaryPat Davitz, CPA

May Pat Davitz

Project Leader

Jeffrey P. Antrainer, CPA

Project Leader

The following responses address selected questions:

**Question 1:** Please describe the individual or organization responding to this Invitation to Comment.

**Response:** The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond.

The MSCPA is the largest professional association dedicated to advancing CPAs in Missouri and represents more than 8,000 members in public practice, industry, government and education. Established in 1909, the MSCPA provides members with continuing education, governmental advocacy, and networking opportunities, while working to further the future of the CPA profession through student-focused initiatives.

The objective of the TIG is to selectively respond to publicly issued exposure drafts of proposed accounting and auditing standards and rules and regulations issued by select standard setting bodies that have an impact on the practice of accountancy in Missouri. Members of the TIG include financial statement preparers, users, and public accountants with both public and private company experience.

**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?

**Response:** The accounting alternative in the proposed Update should not apply to public business entities or employee benefit plans. However, the Board may consider reviewing ASC Topic 810, *Consolidation*, in order to reduce the complexities in its application.

In addition, given that not-for-profit entities usually have the fewest accounting and financial reporting resources, the scope of the proposed Update should be expanded to include not-for-profit entities in its entirety. Although we do acknowledge the discussion in paragraph BC5 and elsewhere in the proposed Update that not-for-profit entities already are substantially excluded from the scope of VIE guidance.

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.

**Response:** Yes. We agree that the proposed Update should not apply to public business entities and employee benefit plans because they generally lack the arrangements that the accounting alternative addresses. However, the Board may consider reviewing ASC Topic 810, *Consolidation*, in order to reduce the complexities in its application.

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

**Response:** Yes. We agree with the required criteria for applying the proposed accounting alternative.

**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.

**Response:** We agree that paragraph 810-10-55-9 provides the primary guidance needed to clarify what constitutes a supporting leasing activity for applying paragraph 810-10-15-17(c). However, additional guidance should be provided in the event the lessor has other operating activities, other operating assets, and/or other arrangements unrelated to the leasing activities between the companies under common ownership. While we also agree with the discussion in paragraph BC13 that greater levels of activity by the lessor entity unrelated to the lessee entity would decrease the likelihood of consolidation under the VIE model, it is unclear how the VIE analysis should be applied when variable interests may exist outside of the leasing activities between the companies under common ownership. For example, should the lessee/lessor relationship be included in that analysis or should the analysis only include the elements that do not support the leasing activity?

**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.

Should other disclosures be required as a result of applying this alternative?

**Response:** Yes. We agree these disclosures should be required if the accounting alternative is elected. In addition, the Board should expand the required disclosures to include the lessor entity's other commitment and contingencies, for example guarantee of other debt, pending or threatening litigation and regulatory or environmental issues.

**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.

**Response:** Yes. We 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. In addition, a separate lessor entity is often established for risk management purposes. This structure shelters valuable assets against certain claims and assessments made against the lessee entities.

**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?

**Response:** Yes. The proposed accounting alternative, including the required disclosures, will 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. As mentioned in paragraph BC10, the focus of the financial statement users is the primary entities cash flow and net worth. Consolidating variable interest entities often confuses the financial statement users. The required disclosures of the accounting alternative provide the users with the necessary decision useful information.

**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?

**Response:** Yes. We 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.

**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?

**Response:** Yes. We 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. This is the clearest approach that alleviates possible confusion to the users of the financial statements.

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

**Response:** The alternative accounting method should be effective for fiscal years beginning on or after December 15, 2014, to allow for proper education and discussion between preparers, users and auditors. However, early application should 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.

**Response:** Yes. We agree that the example codified in paragraphs 810-10-55-87 through 55-89 (described in paragraphs BC19 through BC20 of this proposed Update) should be removed in that the example describes circumstances common to privately-held companies which would be covered under the proposed Alternative Accounting described in this proposed Update. With respect to the affect of public business entity stakeholders, we agree that the specific lessor entity arrangements described are not commonly utilized by public entities and would not have a significant impact on public business entity stakeholders. However, consideration should be given to whether the example should be modified or replaced with circumstances that might apply to public business entities specifically as it relates to implicit interests in lessor entity arrangements if not adequately covered by other sections of the VIE guidance.

**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

**Response:** With respect to the two other alternatives described in paragraphs BC 15 through BC 18 of this proposed Update, we do not believe that either of those two alternatives exclusively better address the concerns raised by private company stakeholders. We do believe that the Board should consider both of these other alternatives in conjunction with the guidance in this proposed Update especially as they relate to implicit interest and provide more guidance on identification of variable interests and primary beneficiaries. In practice, application of the guidance to specific facts and circumstances may result in consolidation where it is not intended without this additional clarification guidance.