July 31, 2006

LETTER OF COMMENT NO. 6

Mr. Lawrence Smith, CPA
Technical Director-FSP
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 15, 2006 Proposed FASB Staff Position (FSP) FAS 126-a, *Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities*

Dear Mr. Smith:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the proposed FSP and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC believes this proposed FSP is unnecessary and would prefer the FASB adopt the SEC's widely known and accepted definition of an "issuer," which excludes all types of municipal bonds. TIC believes the extra disclosures required under the proposed FSP will have little, if any, benefit to municipal bond investors, and therefore sees no reason to add conduit bond obligors to the definition of public entities. TIC also has general concerns about adopting multiple definitions of terms in GAAP.

If the FASB decides not to adopt TIC's recommendation, TIC believes the scope of this proposed FSP should be narrowed to those entities that have a statutory or other obligation to provide their financial statements to potential or current investors. In addition, TIC believes this proposed FSP should exclude entities whose municipal bonds are supported by a letter of credit from a financial institution.

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TIC also recommends that the Board should:

- clarify whether this FSP narrowly changes the definitions in ONLY the Statements noted in paragraph 1 or whether it is or will be more broadly applied; and
- extend the effective date of the FSP for one year if the SEC's issuer definition is not adopted.
- clearly state its reasons for issuing the FSP and how it will improve financial reporting and meet users' needs.

These comments are further described in the specific comments section below.

SPECIFIC COMMENTS

The premise of the proposed FSP is that the obligor for a conduit municipal bond is the true issuer of conduit debt securities and thereby meets the definition of a public entity if the securities are traded in a public market, as defined. TIC fails to see the added benefit to financial statement users of classifying these "issuers" as public entities and requiring the specified disclosures in the entity's financial statements. Many states require the obligor to secure a letter of credit with a financial institution for the protection of the bond's investors. Therefore, those investors rely on the financial institution for credit support and are not particularly concerned with the financial statements of the conduit obligor.

For those states that do not require the obligor to secure a letter of credit, the specific disclosures to be required would not significantly assist investors in determining the ability of the obligor to fulfill its obligations. If municipal bond investors are not asking for these additional disclosures, TIC fails to see the cost/benefit in providing them. TIC therefore believes the diversity in practice cited in the proposal should be resolved by concluding, as a practical matter, that these obligors are not issuers (i.e., public entities). This conclusion would be in keeping with the SEC's widely accepted definition of an issuer, which is limited to entities that have registered (or have submitted a registration statement that is not yet effective for) securities under the '33 and '34 Acts or that are required to file reports with the SEC.

If the Board believes this FSP will fulfill a need in the investor community, TIC recommends that its scope be limited to those conduit debt obligors that are required to make their financial statements available to potential or current investors. TIC thereby endorses the recommendation of the AICPA's Accounting Standards Executive Committee in its comment letter dated July 10, 2006.

TIC is concerned that the proposed FSP, as written, will cause confusion regarding the scope of the term "public entity" within GAAP. Having multiple definitions of public entities in the standards is not helpful in facilitating compliance with GAAP. Ideally, the definition of a

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public entity should be consistent from standard to standard. When valid reasons exist for variations in the definition, the differences should be clearly identified and explained.

In addition, the proposed FSP fails to explain why some existing standards would not be applicable to conduit obligors that are classified as public entities. For example, certain FASB standards not cited in the proposed FSP (such as Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and FSP FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*) have differential requirements for public versus nonpublic entities. However, none of these standards is amended by the Proposed FSP to bring conduit obligors within their scope, implying that the proposal has narrow applicability.

Therefore, TIC recommends that the final FSP discuss why only "certain existing authoritative accounting literature" would be amended to apply to conduit bond obligors rather than all disclosures applicable to public entities. We understand that SFAS No. 123(R) would not be included in the proposed FSP because its glossary definition of "public entity" specifically excludes "an entity that has only debt securities trading in a public market." However, the reason(s) for excluding SFAS No. 132(R) and FASB Staff Position FAS 150-3 from the scope of public entity disclosures under this proposed FSP are less obvious. A discussion of the Board's rationale in selecting applicable disclosures would be appreciated.

Another possible source of confusion in the proposal is the distinction between a public entity for purposes of the application of financial accounting standards and a public entity that would qualify as an issuer. If the Board chooses to not adopt the SEC's issuer definition, the final FSP should clarify that an entity that qualifies as a public entity under this FSP would not be considered an issuer as defined by the SEC and the Sarbanes-Oxley Act of 2002 as well as PCAOB standards.

TIC is concerned that the short transition period will not give affected entities enough time to become aware of and provide the new disclosures, especially those who are planning to issue conduit debt securities in the near future. TIC recommends that the effective date of the final FSP be delayed for an additional year to ensure proper implementation of its provisions.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

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Sincerely,

Edward J. Knauf, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees

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