



LETTER OF COMMENT NO. 7

July 31, 2006

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. FSP FAS 126-a – Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position No. FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities." We commend the Board for taking on this project to bring clarity to the issue of whether conduit municipal bond obligors are subject to the expanded disclosure requirements of certain FASB pronouncements.

In general, we agree that a conduit municipal bond obligor for debt securities that are traded in a public market should be considered a public entity. However, we believe that the scope of the proposed FSP is too broad and could unduly burden conduit borrowers with small issuances. We recommend that the scope be narrowed to focus on conduit obligors that broadly disseminate information in public markets (and thus, issue securities that are similar to corporate debt securities). One way to do this would be to establish a size threshold based on the aggregate issuances. We note that a size threshold currently is used in certain rules governing the tax-exempt bond market. For example, \$10 million is a threshold used by both the IRS (as a threshold for "qualified small issue bonds") and the SEC (as a threshold for requiring issuers of certain types of bonds to provide ongoing disclosure information to Nationally-Recognized Municipal Securities Information Repositories established under SEC Rule 15c2-12).

Applying the requirements of the proposed FSP to conduit borrowers that have issued \$10 million or more of tax-exempt debt in the aggregate, for example, would scope in both conduit bond obligors that are subject to the NRMSIR filing requirements (and thus, have an obligation to make information publicly available on an ongoing basis to investors and potential investors in those bonds) along with larger conduit issuers whose debt currently is exempt from the NRMSIR filing requirements (for example, variable rate demand bonds).

We recommend that the FASB establish a size threshold and consider all information available with respect to characteristics of the municipal bond market when determining an appropriate threshold for this FSP. The Board may wish to discuss these characteristics with the staff of the SEC's Office of Municipal Securities in order to determine a threshold that would strike an appropriate balance



between the costs associated with applying this FSP and the benefits provided to the greatest number of investors practicable.

In addition, the proposed FSP has been construed by some as an attempt by the FASB to impose SEC registrant responsibilities on nonpublic entities, or cause not-for-profit organizations to be regarded as for-profit organizations for purposes of application of FASB standards. We believe it would be helpful for the FASB to clarify its intent in this regard. We recommend that the final FSP either be retitled to something such as "applicability of disclosure requirements in certain FASB standards to obligors in conduit municipal bond financings" or contain a "basis for conclusions" clarifying the Board's intent.

Appendix A to this letter provides other comments related to the proposed FSP.

If you would like to discuss any of these comments further, please contact Kenneth E. Dakdduk at (973) 236-7239 or Martha Garner at (973) 236-7294.

Sincerely,

PricewaterhouseCoopers LLP

**Appendix A
Additional Comments**

- We note that certain types of conduit debt transactions also occur in corporate debt markets. To ensure that the proposed FSP reaches the intended audience (preparers and auditors of financial statements of conduit municipal bond obligors), we recommend that the title of the FSP explicitly refer to municipal bonds rather than debt securities.
- In several places, the document refers to conduit bonds being traded "on a domestic or foreign stock exchange." It is our understanding that municipal bonds are not exchange-traded but instead, trade in over-the-counter markets. Accordingly, those references should be removed.
- We believe questions will arise as to whether the requirements also apply to separately-issued statements of subsidiaries of public entities (for example, separate statements of a public entity's consolidated fund-raising foundation that are prepared for fund-raising purposes). Our view is that the requirements of the FSP should not apply to those separately-issued statements unless the subsidiary also meets the definition of "public entity" in the FSP. We recommend that the Board address this issue in the final FSP.
- In the last sentence of paragraph 5, we recommend that the phrase "municipal bond pooled financing arrangement" be used in lieu of "pooled conduit municipal bond," and that a definition of such arrangements be provided.
- Because many not-for-profit health care organizations are required by their bond covenants to make quarterly financial information available to investors through the NRMSIR system, we believe it would be helpful for paragraph 6 of the final FSP to address transition requirements for entities that issue financial statements for interim periods (e.g., entities that file quarterly financial statements with NRMSIRs; entities that will provide stub-period financial statements in official statements related to bond offerings).
- In paragraph 6, we find the references to "change in accounting principle" and "retrospective application to prior periods" confusing. We recommend that the final FSP indicate that disclosures related to periods prior to adoption of the FSP that are presented for comparative purposes be conformed to the requirements of the FSP to the extent practicable.
- We note that both the AICPA Audit and Accounting Guide "Health Care Organizations," paragraph 1.55 and the Audit and Accounting Guide "Not-For-Profit Organizations," paragraph 1.24 indicate that not-for-profit organizations are specifically exempted from applying the requirements of APB Opinion No. 28, "Interim Financial Reporting." This conflicts with the assertion in the proposed FSP that APB 28 is applicable to conduit municipal obligors that are not-for-profit organizations. Therefore, it appears that these AICPA Guides should be included in Appendix A's listing of pronouncements affected by the FSP.
- In Appendix A, the definition of "public entity" in each affected standard is being revised to include a definition of "conduit debt securities." It would be helpful to specify that these debt securities are municipal securities. Further, we recommend that all of the information provided about conduit municipal debt securities in that definition be reflected in the "Background" section of the final FSP.
- In Appendix A, Paragraph A1, we recommend inserting the word "additionally" as the lead-in of the sentence that begins, "When a company makes a filing with a regulatory agency...". Otherwise, it may appear that conduit bond obligors also must be required to file with a

regulatory agency in order to be a publicly-traded company for purposes of APB Opinion No. 28.

- In Appendix A, Paragraphs A5 and A6, we recommend that the following language be used for the amendment: "or are investor-owned conduit bond obligors for conduit debt securities." Otherwise, the amendments might be perceived as amending those standards' scope exclusion for not-for-profit entities that are conduit bond obligors, which we believe would be an unintended consequence.