October 14, 2013

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

Re: File Reference No. PCC-13-02

Dear Sir or Madam:

Mayer Hoffman McCann P.C. (MHM) welcomes the opportunity to comment on the Proposed Accounting Standards Update, Consolidation, Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements (Exposure Draft). MHM is a national accounting firm with offices in over 34 locations across the country. We perform a wide variety of services including audit and accounting related services for a diverse client base that includes both public and private entities.

We welcome the proposed guidance and believe that it will be viewed among our private company clients as a beneficial improvement to financial reporting, both in the cost benefit of applying United States Generally Accepted Accounting Principles (U.S. GAAP) for private companies and the usefulness of financial reporting to their financial statement users. Included below are our specific recommendations related to the concept of common control and potential additional projects to the proposed guidance in the Exposure Draft. In addition, we have attached our responses to the specific questions asked by the Financial Accounting Standards Board (Board) and Private Company Council (PCC).

Common Control

We believe the term “common control” should be defined within U.S. GAAP prior to, or in conjunction with, the issuance of the Exposure Draft. Without a definition of common control within U.S. GAAP, the application of the common control criteria will lead to inconsistency within financial reporting and encourage transaction structuring.

We believe that in most cases private companies adopt the definition for common control that was laid out by the Securities and Exchange Commission (SEC) Staff in the deliberations of Emerging Issues Task Force (EITF) Issue No. 02-5 Definition of “Common Control” in Relation to FASB Statement No. 141. However, since the EITF did not reach a consensus, the definition is not applied by all companies consistently. In addition, the prescriptive nature of the SEC Staff’s guidance, such as the inclusion of parents and their children, but not their grandchildren, may result in the structuring of transactions to achieve accounting outcomes. Other inconsistencies may result as companies apply the common control
concept to other structures, such as entities with identical ownership, common ownership and entities owned by an employee of a reporting entity.

Additional projects

Providing private companies with relief from applying the variable interest entity guidance to commonly controlled leasing entities will reduce the complexity and cost of applying U.S. GAAP to many private companies and we support its implementation. However, we believe that the Board and PCC should continue to work on additional alternatives after completing the Exposure Draft.

We believe that limiting the scope of the exception to commonly controlled leasing entities does not relieve all of the concerns about variable interest entity accounting. Therefore, it would be beneficial for the Board and PCC to consider proposing and issuing additional guidance on the application of the variable interest entity model on all related party and commonly controlled entities. While many private companies utilize commonly controlled leasing entities, they also often have other brother-sister entities and related entities with which they conduct business. These structures vary widely in ownership, design and purpose. Specifically, we believe the Board and PCC should consider adding additional examples and guidance for when an implicit variable interest exists amongst commonly controlled or related entities and how to determine the primary beneficiary in commonly controlled or related party situations. In particular, additional guidance is needed for when entities under common management have no written agreements related to protective rights, kick-out rights or decision making authority.

The Board and PCC may also find it useful to consider the use of parent-only financial statements for non-public entities under certain conditions. Such an option poses questions about the relevance and reliability of a parent-only financial statement, but depending on the needs of financial statement users, may produce statements that are relevant, while also being less complex and costly to prepare. It would also provide the advantage of consistently treating all entities controlled by a reporting entity in the same way.

We appreciate the opportunity to provide comments on the Exposure Draft. Please contact Ernie Baugh or Hal Hunt if you have questions.

Respectfully Submitted,

[Signature]
Question 1: Please describe the entity or individual responding to this request.

MHM is a national accounting firm with offices in over 34 locations across the country. We perform a wide variety of services including audit and accounting related services for a diverse client base that includes both public and private entities.

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. We believe that if the alternative was provided to public companies, it would lead to inconsistencies within information available to participants in public markets. Due to the limited access to information for stakeholders, those inconsistencies would be difficult to evaluate and therefore the alternative would not be appropriate.

If a not-for-profit entity owned a for-profit subsidiary that was required to apply the Variable Interest Entity subsection or an employee benefit plan had a variable interest relationship with a commonly controlled lessor entity, we believe that the application of the proposed Update would not be in the interest of financial statement users because of their lack of ability to receive additional information from management.

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 believe it would be unusual for a public business entity or an employee benefit plan to have an arrangement addressed in this proposed Update; however, it would be possible for a commonly controlled leasing entity to exist. For a public business entity this would most likely occur in a business that was preparing to issue securities to the public for the first time. For an employee benefit plan this would possibly occur in a multiemployer or multiple employer benefit plan. For reasons stated in Question 2, if that situation did occur, it would not be desirable to provide this election to a public business entity or an employee benefit plan.

Question 4: Do you agree with the required criteria for applying the proposed accounting alternative? If not, please explain why.
We agree with the required criteria for the purpose of providing an alternative for common control leasing entities. However, the term “common control” is not defined within U.S. GAAP and should be prior to, or in conjunction with, adoption of this standard in order to avoid confusion, inconsistent application, and transaction structuring.

**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 with the principle laid out in paragraph 810-10-55-9 and believe the guidance provided is sufficient to clarify the effects of guarantees and joint and several liability arrangements and their relationship to leasing activities.

**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

We agree.

b. The amount of debt and/or significant liabilities of the lessor entity under common control

We agree.

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)

We agree; however, we believe this should include key terms of significant liabilities disclosed under 6b as well as debt.

d. The key terms of any other explicit interest related to the lessor entity under common control.

We agree with the disclosure of the key terms of all other explicit interests held by the reporting entity in the lessor entity under common control; however, we encourage the FASB to clarify whether the intent is to disclose the explicit interests held by the reporting entity in the lessor entity or all explicit interests held by any party. We would not agree with an approach that required the reporting entity to disclose all of the explicit interests held by any party in the lessor entity, because this would increase the complexity and difficulty in preparing financial statements while providing information to the financial statement user that may not be relevant to the reporting entity.

Should other disclosures be required as a result of applying this alternative?
We believe a description of the relative importance to the lessor entity of the leasing activity entered into by the reporting entity should be disclosed. This could be accomplished by requiring a disclosure of the percentage of total revenues earned by the lessor entity that are received from the reporting entity. Such a disclosure would provide the financial statement users with relevant information that would indicate the amount of reliance by the lessor entity on the reporting entity that may be significant in situations when many commonly controlled entities lease from the same lessor entity or when the reporting entity leases only a small portion of the lessor entity’s available facilities.

In addition, we believe the Board and PCC should consider including a required disclosure on whether management intends to renew the lease with the lessor entity at the end of its term. Such a disclosure would be particularly relevant for financial statement users in leasing arrangements which are month to month, annual or near the end of their term. In particular, financial statement users may find information that management does not intend to renew an existing lease arrangement as useful.

We do not believe the addition of the above disclosure would be burdensome or overly complex for management to provide as the lessor entity is under common control and, therefore, the information required would normally be readily available and accessible.

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 believe that it is common for separate lessor entities to be established for tax and estate-planning purposes. We believe that in addition to tax and estate-planning purposes, a separate lessor entity is often established to obtain some protection for the owner or reporting entity from potential liability in the event of litigation, claim or bankruptcy.

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?

Yes, we believe that the accounting requirements to consolidate or not consolidate a commonly controlled lessor entity are not normally a significant determining factor on whether to establish a leasing company. Therefore, providing the option to apply the variable interest entity guidance to these entities will not result in an increase of the formation of these leasing companies.

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; while we believe that in limited situations a financial statement user may desire to have consolidated all lessor entities that a reporting entity explicitly guarantees their debt while excluding all others, we believe that defining appropriate subcategories of lessor entities would increase the complexity of applying this guidance and, therefore, be counterproductive in achieving the goals of the proposed decision making framework. In addition, we believe in consideration of current U.S. GAAP for consolidations, it would be inconsistent to provide a reporting entity with the option to elect to apply variable interest entity guidance on some but not all lessor entities meeting the criteria.

**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. We believe that the information to apply the full retrospective approach is readily available for commonly controlled entities and is usually maintained in separate financial statements.

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

The proposed alternative accounting should be effective for periods ending on or after December 15, 2014. Since retrospective application will be applied, early adoption 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.

We do not agree; the example codified in paragraphs 810-10-55-87 through 55-89 should not be removed unless it is replaced by an alternative example clarifying when an implicit variable interest exists among commonly controlled or related party entities. Without this guidance, those private companies that do not elect the proposed alternative and public companies that have such relationships would lack guidance.

We believe that the removal of the example would not significantly affect public business entity stakeholders. However, it would affect public business entity stakeholders in the unusual cases, as described in Question 3, where they have similar situations.

**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?

We believe that the alternative to clarify the primary beneficiary assessment would be helpful for all entities, in particular reporting entities that have arrangements with related party or commonly controlled entities. However, this alternative does not address all of the concerns raised by private company stakeholders as noted in paragraph
BC18 of the proposed Update and therefore we believe this alternative, while worthwhile, would not be better to address the concerns raised by private company stakeholders. We encourage the Board and the PCC to adopt this alternative as a project after issuing this proposed Update as a final rule.

We believe that the implicit variable interest alternative would not better address the concerns raised by private company stakeholders because of those factors stated in paragraph BC16.

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 clarification of the primary beneficiary assessment should be considered as an additional project for the PCC and the Board, but should not delay the issuance of the proposed relief for commonly controlled leasing companies.