

FASB PCC 13-02 Consolidation

Date of Entry: 8/23/2013

Respondent information

Type of entity or individual:

Contact information:

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Questions and responses

- 1a. Please indicate whether you primarily are a preparer, user, public accountant or, if other, please specify.
Partner with RLR, LLP
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- 1b. 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).
Not applicable
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- 1c. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
2 partners, 16 employees, primarily focused on small business clients and no public clients.
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- 1d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.
Not applicable
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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?
Yes, I agree. Small privately held businesses are the backbone of the US economy today. The burden created by the FASB on these small businesses with the "one size fits all" accounting standards has actually resulted in diluting the information small business financial statements users are presented. While the technical legalese language of the existing standards may be more understood by those with the sophisticated backgrounds in high level finance, most users of small business financial statements actually want something understandable to make business decisions with. The entire VIE accounting standard is beyond most small business financial statement preparers and users. Simply put, had the FASB listened to small business financial statement preparers and users, we would not need to have the FASB make this proposal.

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.

Please see my comments to number 2. A simple common owner related party leasing arrangement tends to be fairly straightforward and a common practice in the small business community. The fact that the FASB forced VIE accounting on preparers of small business financial statements and the subsequent proposed reversal is strong evidence the FASB lacks a good understanding of small business reporting.

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

Yes, the required disclosure information is relevant to the statement users and should be included.

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.

Yes.

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?

In our opinion, the proposed terms are common sense oriented and should provide users adequate information about related party common ownership lease arrangements.

7. Do you agree that, generally, the primary purpose of establishing a separate lessor entity is for tax and estate planning purposes and not to structure off-balance-sheet debt arrangements? If not, please explain why.

The simple fact that the FASB did not understand this common practice of business organization and forced the application of VIE accounting on these transactions is a strong indicator that the FASB needs to better understand small business financial statement preparation and user needs. As it stands now, many small business financial statement preparers take a GAAP exception to the VIE requirements and many users request we NOT combine/consolidate VIE's for their purposes. By across the board implementation of the VIE accounting, the FASB has made existing standards less generally accepted.

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. Brother-sister entities exist in the small business community for a variety of reasons. In my 20 years of preparing, auditing and using small business statements, rarely have these lessor entities been created to shift assets/liabilities to a separate entity to avoid reporting them. Existing GAAP requires related party entities to be disclosed in the financial statements, which is sufficient to put the users on notice about the related entities and use of those entities. Again, VIE reporting requirements within the small business community provide little benefit to financial statement users because the entities are simple organizations. Had the FASB listen to the accounting community when FIN 48 was proposed, the FASB would already understand this.

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?

Yes, this is a common sense approach.

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?

Yes.

11. When should the alternative accounting method be effective? Should early application be permitted?

Implementation should be allowed early. As noted, many preparers take GAAP exceptions and this would alleviate those unnecessary exceptions and related disclosures.

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.

I would have to review the materials in more depth to comment on this 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?

FASB, please take the time to understand the small business community, financial reporting requirements, preparers and users. Accounting and financial reporting should be something easily understood by the preparers and users. Most users of financial statements we work with - private investors, bankers, bonding companies, government agencies - have little to no understanding of what the VIE language means. We have created a set of accounting standards that are far too technical with language that is not understood by the common business person/user. If we continue down this path of highly technical rules based accounting standards, there will be no GAAP because users/preparers will begin to deviate from the FASB standards and/or other accounting practices will become more accepted. The AICPA's SME proposal is a good example.

Update comments. Please provide any additional comments on the proposed Update:

I have no additional comments

EFF comments. Please provide any comments on the electronic feedback process:

The process is good and should help others provide their input much quicker and easier.
