



PCC-13-02
Comment Letter No. 35
CliftonLarsonAllen LLP
220 South Sixth Street, Suite 300
Minneapolis, MN 55402-1436
612-376-4500 | fax 612-376-4850
www.cliftonlarsonallen.com

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Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. PCC-13-02

Proposed Accounting Standards Update – Consolidation (Topic 810): Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements

Dear Director:

We are pleased to provide comments on the proposal to allow private companies an alternative to adopt an accounting policy to avoid applying the requirements of variable interest entity accounting if specified criteria are met. We appreciate and agree with the process the Private Company Council is taking in providing reasonable accounting alternatives to private companies. We believe alternatives for private companies can enhance the relevance of their financial statements. In addition, we believe improvements in the consistent application of accounting standards will occur by providing easier to apply, cost-effective accounting alternatives.

Summary

Ever since the initial variable interest entity accounting standard was issued, there has been confusion and inconsistent application. One of the greatest areas of inconsistent application is regarding leasing activities between related private companies. Over the years, formal interpretations of the standard through FSPs and ASUs have not improved understanding or reduced inconsistent application of variable interest accounting rules as they apply to leasing activities among related entities. In addition, we commonly find that management or owners choose to allow a departure from GAAP in private company financial statements instead of applying the variable interest provisions of the Codification and these financial statements being accepted by third-party users. Accordingly, we agree with the proposal to allow private companies to elect not to apply variable interest entity accounting for leasing arrangements between entities under common control.

We believe that either the existing or proposed lease accounting standards often better reflect the economics of these transactions than consolidation under the variable interest entity rules. If the leasing arrangement is for a significant time or amount, an obligation will be presented on the statement of financial position. If not, there is no long term contractual obligation to support the recording of a liability. In addition, there is no long term contractual right to record a significant asset.

We also believe ASC 460-10-25-1 (g) and (h), which exempt parent/subsidiary and subsidiary/subsidiary from applying certain guarantee liability provisions, is a precedent in the Codification to support the proposed approach.

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Specific Responses

We are a national firm with \$550 million in revenue, over 90 locations, and a focus on serving privately held businesses and their owners. We consistently hear from our clients that the most costly to implement aspects of U.S. GAAP are the least relevant to them and their financial statement users. (Question 1)

While we believe other PCC proposals may apply to not-for-profit entities, this is not an issue with variable interest entity accounting since not-for-profit entities rarely are required to follow variable interest entity accounting. (Question 2)

We believe this alternative should not apply to public companies primarily because the variable interest accounting rules were principally developed to address a public company need. (Question 3)

The required criteria to apply the alternative are appropriate, simply stated and easy to apply. (Question 4)

We believe that the expanded disclosures under proposed ASC 810-10-50-2AD are for the most part redundant with existing related party and leasing disclosure requirements. However, we concur with including the specific requirements under this alternative to avoid the fragmented presentation of information relevant to financial statement users' understanding of leasing and related arrangements between the private company and legal entity. (Question 6)

For transition, we recommend applying the alternative through retrospective application. Similarly, if an entity changes its accounting policy by re-adopting variable interest entity accounting, we believe the provisions of ASC 250 should apply. Accordingly, retrospective application and the required disclosures would be applicable. We believe this would be the case when a private company elects to go public.

In closing, we believe the proposed accounting alternative would allow private companies to provide their financial statement users with clearer and more relevant decision-useful information. We have found the business purpose of many private companies is entirely different from the entities that drove the desire for variable interest entity accounting in the public setting. The original drafting of the variable interest entity standard did not adequately address leasing arrangements between entities under common control. Consequently, an effort to revise variable interest entity rules rather than provide the proposed private company alternative would require re-writing key provisions which might cause unintended consequences on public companies that currently apply the standard. (Questions 7 and 13)

We would be pleased to discuss our comments further with the FASB staff. Please direct questions to Stephen Bodine (steve.bodine@claconnect.com) at 612/376-4791.

Sincerely,



CliftonLarsonAllen LLP