

Private Company Council

PCC Issue No. 13-02

Title: Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements

Document: Issue Summary No. 1, Supplement No. 1

Date Prepared: November 1, 2013

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Dates previously discussed: February 12, 2013; July 16, 2013

Previously distributed PCC materials: Agenda Request Issue No. 1, dated February 1, 2013; Issue Summary No. 1, dated May 7, 2013; Issue Summary No. 1 (Revised), dated July 16, 2013; Proposed Accounting Standards Update, dated August 22, 2013

Purpose

1. This Issue Summary Supplement provides (a) a summary of the outreach activities undertaken and comments received in response to the proposed Accounting Standards Update, *Consolidation (Topic 810)* (proposed Update), issued on August 22, 2013, and (b) an analysis of and FASB staff recommendations on the primary issues identified as a result of the feedback received.

Background

2. At its February 12, 2013 meeting, the PCC decided to add an Issue to its agenda to explore potential alternatives within U.S. GAAP for private companies to address the application of variable interest entity (VIE) guidance to common control leasing arrangements. At its July 16, 2013 meeting, the PCC decided to provide private companies with an alternative within U.S. GAAP related to the application of VIE guidance to common control leasing arrangements.

Summary of Proposed Alternative

3. The PCC decided to permit a private company to elect not to apply VIE guidance for assessing whether it should consolidate a lessor entity when (a) the lessor entity and the private company are under common control, (b) the private company has a leasing arrangement with the lessor entity, and (c) substantially all of the activity between the two entities is related to the leasing activity of the lessor entity.

4. The accounting alternative, when elected, would be an accounting policy election that would be applied by a private company to all current and future lessor entities under common control that meet the criteria for applying this alternative approach.

5. If a private company lessee elects to apply the guidance in the proposed Update, it would be required to disclose additional information about each applicable lessor entity. Such disclosures would include the key terms of the leasing arrangements, the amount of debt and/or significant liabilities of the lessor entity under common control, the key terms of existing debt agreements of the lessor entity under common control, and the key terms of any other explicit interest related to the lessor entity under common control. In addition, entities that elect this alternative should continue to apply other applicable U.S. GAAP, including Topic 840, Leases, and Topic 460, Guarantees.

Comment Letter Respondents by Category

6. The comment letter period ended on October 14, 2013. At the time this Issue Supplement was prepared, 41 comment letters had been received on the proposed Update. Respondents included:

Accounting Firms	22
Individuals	1
Preparers	4
Professional Associations	4
State Societies of CPAs	9
Users	1
Total	41

7. While limited comment letters were submitted by users of private company financial statements, the FASB staff also performed limited outreach with users (including lenders, sureties, and the FASB Small Business Advisory Committee) to supplement the feedback received through the comment letter process. User feedback is incorporated throughout this Issue Supplement.

8. This Issue Supplement is organized as follows:

- Overall Feedback
- Issue 1: Scope
- Issue 2: Criteria to Qualify
- Issue 3: Disclosure
- Issue 4: Accounting Policy Election
- Issue 5: Transition, Effective Date, and Early Adoption
- Removal of the FSP Example and Other Considerations

Overall Feedback

9. Most respondents expressed general support for the proposal and believe that it would address private company stakeholder concerns about the relevance of consolidated information. Many respondents agreed that consolidation of a lessor entity distorts the financial statements of a lessee entity, and, consequently, users who receive consolidated financial statements often request a consolidating schedule to enable them to reverse the effects of consolidation. Moreover, several respondents stated that they do not consolidate their VIEs at the request of their users, even though that results in a qualified opinion for a U.S. GAAP exception each year. Thus, they welcomed this proposal as an improvement over existing guidance.

10. The vast majority of respondents agreed that private companies usually establish separate lessor entities for tax and estate-planning purposes. Some respondents stated that there are other reasons to establish a separate lessor entity (such as for legal-liability exposure and asset diversification), but respondents unanimously agreed that these arrangements are not currently being used by private companies to structure off-balance sheet debt arrangements. Therefore, the benefits of requiring VIE guidance to assess a lessor entity under common control for

consolidation in a leasing arrangement may not justify the related costs.

11. Although all respondents agreed that private companies are not currently establishing separate lessor entities to structure off-balance sheet debt arrangements, a few respondents indicated that the proposal may result in more entities establishing lessor entities for structuring purposes in the future. However, the vast majority of respondents believe that, given the qualifying criteria and the disclosure requirements, the proposal would not lead to a proliferation of the use of lessor entities solely for the purpose of inappropriately avoiding on-balance sheet reporting. McGladrey & Pullen (CL #10) stated the following:

We believe the proposed accounting alternative would represent an improvement over current accounting requirements and would address concerns about relevance of consolidated information. We do not believe the alternative would lead to a "proliferation" of the use of lessor entities to avoid reporting assets and liabilities. If such a "proliferation" were to occur, we believe the proposed disclosures would address any concerns more meaningfully than consolidation.

Issue 1: Scope

12. Most respondents agreed that the accounting alternative in the proposal should apply to all entities except public business entities, not-for-profit entities, and employee benefit plans within the scope of Topics 960 through 965 on plan accounting. Many of those respondents believe that exclusion is appropriate because public business entities and employee benefit plans lack the arrangements that the accounting alternative addresses. Also, respondents mentioned that excluding not-for-profit entities from the scope of the proposal would be appropriate as well because not-for-profit entities are already substantially excluded from the scope of VIE guidance.

13. Some respondents indicated that they do not believe that the information needs of users of private company financial statements are sufficiently different from those of other public entities that are subject to the VIE consolidation requirements to warrant the development of an accounting alternative. Those respondents would support a broader reconsideration of this aspect of the consolidation guidance with a goal of issuing revised guidance for common control

leasing arrangements that would apply to all entities because they believe that public business entities face the same challenges with similar leasing arrangements as those addressed by the proposed Update. Therefore, they would prefer that this issue be addressed for both public and private entities. KPMG (CL #34) explained the following:

We do not agree that entities other than private companies lack the arrangements that the proposed ASU addresses. Although less frequent than may be the case for private entities, we understand that other entities could have these types of arrangements. For example, these types of arrangements may exist where a public company is controlled by a single shareholder that also controls an entity that leases property to the public company.

14. A few respondents recommended expanding the scope of the proposal to conduit bond obligors and other similar entities because they often face the same challenges that this proposal is attempting to address. KYCPA (CL#20) explained its reasoning for expanding the scope to conduit bond obligors as follows:

However, we are concerned with private companies that have municipal bonds (as conduit debt obligor) outstanding being included in the scope of "public business entities". We are aware of such operating entities (with municipal bonds) that also have lessor entities under common control that would otherwise be allowed to use this accounting alternative. We do not believe such privately held entities with municipal bonds should be excluded from scope.

FASB Staff Recommendation

15. The FASB staff recommends that the PCC reaffirm the current scope of the proposed alternative (the decision regarding the extension of the alternative to NFPs or public business entities (including conduit bond obligors) will be addressed by the Board separately).

Question 1 for the PCC: Does the PCC wish to reaffirm its decision that the accounting alternative in the proposed Update should apply to all entities except public business entities, not-for-profit entities, and employee benefit plans within the scope of Topics 960 through 965 on plan accounting?

Issue 2: Criteria to Qualify

16. Most respondents expressed general support for the required criteria for applying the proposed accounting alternative. However, several respondents expressed concerns about certain aspects of the criteria, and those concerns are addressed in the following sections.

Clarification for VIE Related Disclosures

17. A few respondents mentioned that it appears that the proposal, as currently written, could be interpreted as exempting a private company from the requirement to consolidate a VIE under common control but possibly not from the disclosure requirements if the entity has an implicit or explicit variable interest in the legal entity that is a VIE. The staff believes that the intent of the proposal is to replace the existing VIE disclosures with the disclosures under the proposed accounting alternative if the qualifying criteria are met. As such, the staff recommends that this be clarified in the drafting of the final standard.

Question 2 for the PCC: Does the PCC agree with the staff recommendation to clarify that the intent of this proposal is to also scope out VIE related disclosures for entities that meet the qualifying criteria?

Common Control

18. The first requirement to qualify for the proposed accounting alternative is that the private company and the legal entity are under "common control." Numerous respondents noted that the definition of common control does not appear in the FASB Codification. Public companies are currently utilizing the SEC observations documented in EITF Issue No. 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141," to determine common control, but there was never a final consensus reached by the Task Force on this EITF Issue. Therefore, common control is still open to interpretation, which may result in inconsistent application of the proposal. Many of those respondents believe that the proposal should include guidance that defines common control. The New York State Society of CPA's (CL#12) stated the following:

However, we believe that the final Update should include guidance on how to assess common control. In our experience, private companies and Lease VIEs, or Legal Entities as defined in the Update, frequently have disparate ownership

interests and the application guidance should be clear in order to ensure that in practice the Update is applied consistently.

FASB Staff Recommendation

19. The FASB staff notes that the term "common control" currently exists in other areas of U.S. GAAP (for example, Topic 805, Business Combinations). Establishing a definition for common control would be a change that could impact all entities, including public and private companies, and, therefore, the staff believes that this is outside the scope of the proposal. Furthermore, the staff notes that establishing a definition of common control would require further analysis, which may significantly delay the proposal's final issuance, as well. The staff also believes that it may be more appropriate for the FASB to consider a separate project to define common control.

20. The staff acknowledges the concerns about the potential diversity in practice that may result if common control is not defined. However, because common control is not an entirely new concept within U.S. GAAP, the staff believes that current practice is capable of interpreting this proposal appropriately.

Question 3 for the PCC: Does the PCC agree with the staff recommendation to exclude guidance relating to common control?

Supporting Leasing Activity

21. Most constituents agree that the example within 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). However, some respondents expressed concern about applying the concept within paragraph 810-10-55-9 because it uses the term "mortgage" to refer to the debt that is secured by the leased assets. Those respondents believe that, based on the current drafting, paragraph 810-10-55-9 could be interpreted to indicate that the alternative only applies to leases between entities under common control that involve the leasing of real estate. Crowe Horwath (CL #24) explained their reasoning as follows:

We do not believe that paragraph 810-10-55-9 provides sufficient support of

what constitutes a supporting leasing activity. The use of the term "mortgage" in paragraph 810-10-55-9 could be interpreted to indicate the alternative only applies to leases between entities under common control that involve the leasing of real estate. Leases between entities under common control are not only limited to real estate. Such arrangements occur frequently in the construction, trucking, dealership and other industries and could involve machinery and equipment.

22. Some respondents indicated that the lessor entity may not have any direct employees. Instead, the activities usually performed by the owner of a property (such as paying property and income taxes, negotiation the financing for the property, and maintaining the property) may be performed by the private company on behalf of the lessor entity. The respondents mentioned that it is unclear whether these activities would be considered leasing activities, as proposed in paragraph 810-10-15-17A(c).

FASB Staff Recommendation

23. The staff agrees that the intent of the proposal is not to restrict this guidance to common control leasing arrangements involving real estate. Therefore, the staff recommends replacing the term "mortgage" in paragraph 810-10-55-9 with "indebtedness that is secured by the leased asset" to clarify this matter.

24. The FASB staff believes that activities such as paying property and income taxes, negotiation the financing for the property, and maintaining the property are supporting leasing activities. As such, the FASB staff recommends clarifying that such activities may be considered supporting leasing activities.

Question 4 for the PCC: Does the PCC agree with the staff recommendation to:

- a. Replace the term "mortgage" with "indebtedness that is secured by the leased asset" in paragraph 810-10-55-9**
- b. Provide additional clarification that certain activities, such as paying property and income taxes, negotiating the financing for the property, and maintaining the property, may be considered supporting leasing activities?**

Treatment for Entities that Subsequently Do Not Meet the Criteria

25. Some respondents mentioned that the proposal does not clarify treatment for entities that subsequently do not meet the criteria to apply this accounting alternative. The staff acknowledges those concerns and recommends amending Subtopic 810-10 by including the following paragraph to clarify that if the criteria in paragraph 810-10-15-17A are no longer met, the guidance in the Variable Interest Entities Subsections shall apply at the date of the change on a prospective basis:

810-10-15-17C If any of the conditions in paragraph 810-10-15-17A for applying the private company accounting alternative cease to be met, the guidance in the Variable Interest Entities Subsections shall apply at the date of change on a prospective basis.

If a private company determines that it is the primary beneficiary of the lessor entity at the date the criteria in paragraph 810-10-15-17A cease to be met, then the private company should assume that it obtained controlling financial interest as of that date. The staff does not believe that it is appropriate to restate prior periods even if the private company would have concluded that it was the primary beneficiary under VIE guidance when the accounting alternative applied. The staff notes that this approach is analogous to the treatment of reconsideration events under current VIE guidance.

Question 5 for the PCC: Does the PCC agree with the staff recommendation to add another paragraph to clarify that if the criteria in paragraph 810-10-15-17A are no longer met, the guidance in the Variable Interest Entities Subsection shall apply at the date of the change on a prospective basis?

Question 6 for the PCC: Does the PCC wish to reaffirm its decision on the required criteria for applying the accounting alternative in light of the changes discussed above?

Issue 3: Disclosure

26. Most respondents indicated that they generally agreed with providing the following additional disclosures if a private company elects the proposed accounting alternative:

- 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.

For example, the Financial Reporting Executive Committee of the American Institute of Certified Public Accountants (CL 37) stated the following:

We agree that the additional disclosures included in this PCC proposal would provide decision useful information for users of private company financial statements and would not be costly for private companies to implement.

27. Some respondents expressed concern about disclosing key terms of leasing arrangements. Those respondents argued that such disclosures would be redundant to what is currently required under Topic 840, Leases, because Topic 840 already requires an entity to provide a general description of its leasing arrangements. However, many of those respondents suggested that such disclosures should be presented in one place to improve readability for users. CliftonLarsonAllen LLP (CL# 35) stated the following:

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.

28. Some respondents also requested more clarification on the disclosure requirements of "significant liabilities." Those respondents generally agreed that losses to which the private company is exposed should be disclosed regardless of whether they are recognized as liabilities of the lessor entity. They believe that users would find such disclosures to be relevant and also add that those disclosures are similar to the requirements of VIE disclosures for a reporting entity that has a variable interest in a VIE, but is not the primary beneficiary. The Technical Issues

Committee of the AICPA Private Company Practice Section (CL#38) highlighted the matter as follows:

However, TIC requests some clarification concerning the proposed requirement to disclose the debt and/or significant liabilities of the lessor under common control. After discussing this issue with FASB staff, TIC understands that the Board intends that the disclosure include any significant obligation (contractual or noncontractual) that would ultimately require a cash payment. Therefore, the disclosures should include any significant asset retirement obligations, environmental contingencies, or legal contingencies, as well as recognized liabilities. TIC recommends that the Board include additional guidance to clarify that all significant obligations need to be disclosed, irrespective of whether or not they are recognized as liabilities on the balance sheet. TIC also requests that private companies be given the option of qualitative disclosure for any significant obligations that are not recognized as liabilities on the balance sheet.

FASB Staff Recommendation

29. The staff agrees with the concerns raised by respondents discussed above and recommends that proposed new paragraph 810-10-50-2AD of the proposal be revised as follows (added text is underlined and deleted text is ~~struck out~~):

810-10-50-2AD A private company that does not apply the requirements of the Variable Interest Entities Subsections to one or more legal entities because the criteria in paragraph 810-10-15-17A are met, shall disclose all of the following information:

- a. The amount and key terms of significant liabilities recognized by the lessor entity that expose the private company to having to provide significant financial support to the lessor entity. For example, a private company exposed to debt of the lessor entity should disclose information such as the amount of debt, interest rate, maturity, pledged collateral, and guarantees associated with the debt.
 - b. Qualitative description of significant arrangements (for example, certain commitments and contingencies) not recognized that expose the private company to having to provide financial support to the lessor entity.
- ~~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.~~

In disclosing information about the lessor entity, private companies are encouraged to present the disclosures in paragraph 810-10-50-2AD in combination with the disclosure requirements under other topical guidance (for example, Topics 840, 850, and 860).

30. The staff believes that the recommendation retains the original intent of the proposed disclosure requirements and prevents duplicate disclosures that are already required in other areas of U.S. GAAP. The staff also believes that the recommended disclosures provide users with relevant information and would not require a private company to provide more disclosure than would be required had the private company consolidated the lessor entity.

Question 7 for the PCC: Does the PCC agree with the staff recommendation to revise the disclosure requirements in proposed new paragraph 810-10-50-2AD?

Issue 4: Accounting Policy Election

31. Nearly all respondents agreed 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 the approach. Those respondents believe that this would result in consistent application of the approach and limit opportunities to "cherry pick" by applying the accounting alternative only when consolidation would have an adverse effect on the entity's financial statements.

32. The respondents who believe that the proposed accounting alternative should not be an accounting policy election mentioned that the standard should provide entities with the flexibility to use judgment in determining when consolidation of common control leasing entities is appropriate. Those respondents noted that this flexibility would allow entities to base their

decision on information that is most meaningful to their users, which would make their financial statements more relevant.

FASB Staff Recommendation

33. The staff agrees with the majority of respondents that the proposed accounting alternative 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 the approach. The staff believes that this will result in consistent application of the approach and improve the comparability of financial statements across multiple years and transactions.

Question 8 for the PCC: Does the PCC wish to reaffirm its previous decision 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?

Issue 5: Transition, Effective Date, and Early Adoption

Transition

34. Most respondents agreed 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. Those respondents stated that a full retrospective approach would ensure comparability from period to period and not be too onerous to apply.

FASB Staff Recommendation

35. The FASB staff agrees with the respondents that the proposed accounting alternative should be applied using a full retrospective approach. Based on the feedback received, the staff believes that the benefits of providing comparable information under full retrospective application outweigh the cost of unwinding previous consolidations. Feedback from users indicated that they often request consolidating schedules when a lessee entity consolidates a lessor entity. The staff believes that those schedules could be used by preparers to apply the proposed accounting

alternative on a retrospective basis.

Question 9 for the PCC: Does the PCC wish to reaffirm its previous decision 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?

Effective Date and Early Application

36. Of the respondents who commented on the effective date, all suggested that early application be permitted. Responses about effective date varied slightly, but respondents generally supported a timely implementation when the Update is issued. Many respondents supported this standard being effective immediately upon issuance or effective for periods beginning after December 2013. However, some respondents indicated that it would be more appropriate for the guidance to be effective for years ending after December of 2014 to allow companies to study and learn about the financial reporting impact of this proposed alternative. In all cases, all respondents unanimously agreed that early adoption should be allowed.

FASB Staff Recommendation

37. The FASB staff recommends that private companies should be able to apply the alternative, if they elect to do so, during fiscal years and interim periods within those fiscal years, beginning after December 15, 2014, and that early application should be permitted. If this proposal were to be issued near the end of 2013, private companies and their auditors would have almost two years before the issuance of a calendar-year private-company's financials to implement the new guidance, but that timeframe also would provide an opportunity for those who wish to be able to apply the guidance earlier. Making the guidance effective in 2015 (for calendar year companies) acknowledges the fact that private companies and their public accountants often do not learn about new guidance until later in the year and that the final standard may be issued while their resources are focused on year-end close and other matters.

Question 10 for the PCC: Does the PCC agree with the staff recommendation that the

guidance should be effective during fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014, with early adoption permitted?

Removal of the FSP Example and Other Considerations

38. The following paragraphs summarize feedback received on the proposed Update that does not require a decision of the PCC.

Removal of the FSP Example

39. Respondent views were mixed in regards to whether the example that is codified in paragraphs 810-10-55-87 through 55-89 (FSP example) should be removed. Some respondents agreed that the proposed alternative contradicts the FSP example because it exempts private companies with a fact pattern very similar to the FSP example from applying VIE guidance. Many of those respondents also agreed that the FSP example primarily applies to private companies and its removal will not have a significant effect on public companies and employee benefit plans.

40. On the other hand, some respondents acknowledged that the example may be beneficial for public companies that are not eligible to apply the proposed alternative. Those respondents stated that, while infrequent, common control leasing arrangements exist for public companies. Those respondents mentioned that another option would be to revise the example so that it is specific to public business entity arrangements. The Missouri Society of CPAs (CL#27) stated the following:

With respect to the affect of public business entity stakeholders, we agree that the specific lessor entity arrangements described are not commonly utilized by public entities and would not have a significant impact on public business entity stakeholders. However, consideration should be given to whether the example should be modified or replaced with circumstances that might apply to public business entities specifically as it relates to implicit interests in lessor entity arrangements if not adequately covered by other sections of the VIE guidance.

41. The respondents who believe that it would be appropriate to retain the FSP example also stated that the example provides necessary guidance to both public and private entities. The

respondents mentioned that the proposed Update is currently drafted as an accounting policy election and that it would be presumptuous to assume that all private entities would elect to apply this alternative. Therefore, the example must be retained to provide guidance in those instances in which a private entity elects not to apply the accounting alternative within the proposed Update or, in the case of a public entity, is scoped out entirely. Furthermore, some respondents mentioned that the example includes important principles that are applicable in evaluating whether an implicit variable interest exists more generally, beyond related party leasing, and removing this example would affect other areas of U.S. GAAP that are outside the scope of this Issue. The staff notes that the decision to retain the FSP example will be addressed by the Board separately.

Other Alternatives

42. In the proposed Update, respondents were asked whether two other alternatives considered at the July PCC meeting (as described in paragraphs BC15 through BC18 of the proposed Update) would better address the concerns raised by private company stakeholders than the alternative in the proposed Update. The first additional alternative was to provide more guidance on the identification of variable interest. Most respondents did not support the variable interest alternative. For example, Ernst & Young LLP (CL# 29) stated:

We do not believe that the variable interest alternative described in BC15 of the proposed Update would better address the concerns raised by private company stakeholders. We are concerned that the alternative may be misleading, and could result in a private company's failing to identify an implicit variable interest when one may exist. For example, the lessor entity may be exposed to other variability, in addition to the variability associated with the lessee's credit risk. The lessor entity may be exposed to variability associated with changes in the fair value of the leased asset (which may not always be affected by actions of the lessee) and to the credit risk of the owner, in circumstances when the owner also provides a guarantee. A lessee providing an implicit guarantee may be exposed to all of these forms of variability, which could be significant. In these circumstances, we believe it would be appropriate to conclude the lessee has an implicit variable interest.

43. The second additional alternative (that is, the primary beneficiary alternative) was to clarify the primary beneficiary assessment. Although the vast majority of respondents indicated a

preference for the proposed alternative as exposed, some respondents supported the primary beneficiary alternative. Those respondents mentioned that the primary beneficiary alternative would have more widespread application because it could be applied to all companies, including those that either do not qualify for, or do not elect to apply, the proposed Update. Furthermore, some respondents mentioned that the primary beneficiary alternative would provide an opportunity to clarify current VIE guidance that they believe is causing confusion in practice.

44. As the primary beneficiary approach would affect all entities within the scope of VIE guidance, the staff believes that it may be more appropriate for the FASB to consider this alternative in a separate project if the FASB wishes to do so.

Transition from a Private Company to a Public Company

45. Some respondents requested guidance for private companies that elect to apply the accounting alternatives and subsequently decide to become public entities. A private company may choose to go public or could be compelled by regulatory requirements not to apply accounting alternatives for private companies under U.S. GAAP. Those respondents were concerned with the lack of guidance in the proposed Update with respect to unwinding of any PCC accounting alternative.

46. The staff notes that transition from private company reporting to a public company reporting was discussed during redeliberations on the Private Company Decision-Making Framework. The Board and the PCC decided that preparers should be allowed to select the accounting alternatives that they deem appropriate to apply with the ultimate decision resting with regulators, lenders and other creditors, or other financial statements users that require U.S. GAAP financial statements. The transition effort to comply with public company reporting requirements would be a factor for private company preparers and the users of their financial statements to consider in determining whether to apply a private company accounting alternative.

Question 11 for the PCC: Based on the feedback summarized in paragraphs 39 through 45, does the PCC have any recommendations for the Board to consider as it relates to PCC Issue No. 13-02?