



December 22, 2017

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: November 1, 2017 GASB Exposure Draft (ED), *Accounting and Financial Reporting for Majority Equity Interests, an Amendment of GASB Statement No. 14 (Project No. 36)*

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and agrees with the primary objective, which is to improve the consistency of reporting a government's majority equity interest in a legally separate organization. This proposed standard would specify that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment would be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or a permanent fund, which would measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government would report the legally separate organization as a component unit, and the government or fund that holds the equity interest would report an asset related to the majority equity interest using the equity method.

From TIC's experience, many tribal enterprises are majority owned by the tribe and TIC has seen them recorded as both an investment and a component unit under current GAAP. One of the issues, especially as it relates to tribal governments, is the difficulty and subjectivity of intent of ownership. While this ED does help by stating that if it meets the definition of an investment it should be reported as one, this may cause governments that want to present as component units

to look differently at the question of intent. Paragraph 55 of GASB 14, *The Financial Reporting Entity*, provides an example but TIC fears that might not be enough. However, TIC does agree with an investment being the default, with component unit only being used if it does not meet the definition of an investment.

TIC also agrees that an acquisition, whether legally separate or not, results in the same type of governmental combination and should be treated similarly. We agree that in either case the 100% acquired component units be reported at the acquisition value, with the same measurement exceptions that are provided for government acquisitions in paragraphs 31 and 33-36 of GASB 69.

This ED also would require that governments use acquisition value to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of acquisition of a component unit in which the primary government acquired a 100 percent equity interest. Transactions presented in the flows statements of the component unit in that circumstance would include only transactions that occurred subsequent to the acquisition. TIC agrees with the Boards approach on this issue.

TIC agrees with the proposal to apply this proposed standard retroactively, except for the provisions to measure assets, deferred outflows of resources, liabilities, and deferred inflows of resources of a component unit in which the primary government acquired a 100 percent equity interest during the reporting period by applying acquisition value, which should be applied prospectively.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees