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October 30, 2012

Via email to [director@fasb.org](mailto:director@fasb.org)

Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856

RE: Invitation to Comment, *A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies* (File Reference No. 2012-230)

Dear Ms. Cospers:

We are pleased to respond to the invitation to comment on the private company decision-making framework.

The Private Company Council (PCC or Council) has been charged with two main responsibilities: i) determining whether to propose changes to US GAAP for private companies, including recognition and measurement differences, and ii) providing advice on private company matters to the FASB as it deliberates projects for all entities, both public and private. The discussion paper is silent on how the PCC will balance these two priorities, and whether one takes precedence over the other. If the PCC views its primary responsibility as advising the FASB, it will function largely in the same capacity as the Private Company Financial Reporting Committee. This would continue to be a useful endeavor, particularly when there are standard-setting "fixes" that should apply equally to public and private companies. However, a primary emphasis on the PCC's advisory role would not provide the same level of relief for private companies as if the Council spent the majority of its time evaluating potential modifications to US GAAP for private companies.

We believe the PCC needs to establish a clear understanding with the FASB on this point. It will require a consensus among Council members as to how they interpret their mandate, and we recommend that this topic be discussed in an open forum during the PCC's initial meetings. On an ongoing basis, the PCC should employ a consistent approach for deciding which issues are added to its technical agenda or incorporated into its advisory function with the FASB. Factors for making that decision could include i) whether it is likely the Council can reach a decision in a timely fashion, ii) whether agenda requests are submitted primarily from private company constituents or if the same concerns are shared equally by public company stakeholders, and iii) whether the FASB or EITF has a current project on its agenda for the matter in question. This list is not all inclusive, and there are likely to be other relevant factors for managing the PCC's agenda. Therefore, we recommend a shared



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dialogue at the PCC's outset to build a consensus on this threshold issue. We believe it is key to the Council's effectiveness in future standard setting.

We have provided additional responses to the questions posed in the discussion paper below.

\* \* \* \* \*

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

*BDO USA, LLP*

BDO USA, LLP



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### Appendix

Question 1: Please describe the individual or organization responding to this Invitation to Comment.

- a. Please indicate whether you are a financial statement preparer, user, or public accountant, or if you are a different type of stakeholder, please specify. Please indicate if you are both a preparer and a user of financial statements.
- b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your business and its size. If applicable, describe any relevant prior experience in preparing financial statements for private companies or public companies.
- c. If you are a user of financial statements, please indicate in what capacity (for example, investor or lender) and whether you primarily use financial statements of private companies or both private companies and public companies.
- d. 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 private companies or both private companies and public companies.

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Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1-DF13)? If it has not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.

We agree with the factors identified by the staff. With respect to recognition and measurement, the discussion paper states “No exceptions or modifications should be considered unless input from users indicates that a difference or change is appropriate.”<sup>1</sup> Many users of private company financial statements do not monitor or participate in the FASB’s standard-setting process. For example, a community bank may accept a qualified audit opinion for the financial statements of a manufacturer that does not consolidate a related-party lessor under the VIE guidance in Topic 810. This is one indication of a user’s perspective on a financial reporting matter, but for which the bank would not ordinarily contact the FASB to express its views. Private companies and their auditors are more likely to provide this type of feedback, and will be in closer proximity with the FASB and PCC. Therefore, we recommend broadening the principle above to include input from all stakeholders, rather than limiting it to users. Among other things, this should promote more direct input about the costs and potential resource constraints that preparers face, which will be relevant to the Council’s standard-setting efforts.

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<sup>1</sup> Paragraph 1.8



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**Question 3: Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?**

We believe the staff recommendations are a good starting point for developing a private company framework. We would expect it to be refined as a result of constituent feedback on this discussion paper, the PCC's initial meetings and a perhaps second exposure document. In this light, we believe it would be an important point of due process for the PCC to expose and deliberate its own framework, building on the efforts of the FASB staff. This should include focusing on how the Council will allocate its time between advising the FASB and working on its own technical agenda. We also note the definition of a nonpublic entity will need to be finalized in connection with the framework.

**Question 4: Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?**

We agree. See our response to Question 7 on additional matters related to industry-specific disclosures.

**Question 5: Do the different areas of the framework appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the *red-flag approach* often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?**

We support the direction of the draft framework and its focus on user needs. Similar to the EITF criteria for agenda requests, we recommend that the PCC consider on an ongoing basis whether it can reach a decision in under a year and how its projects interact with the FASB's agenda. With respect to the timing of Council projects, we believe private company stakeholders will be best served if decisions are reached on a timely basis. Projects that span years will provide diminishing returns for private companies. And to the extent the PCC identifies an issue that would require extended deliberations, this may be an indication of an improvement in US GAAP that should apply to all companies, both public and private. In that context, the FASB would be better positioned to address the issue.

**Question 6: Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?**

We believe the factors are generally appropriate. However, there is no mention of income tax or estate planning considerations in paragraphs 1.5 or 1.6, even though they are



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acknowledged in the discussion of "Ownership and Capital Structure."<sup>2</sup> We believe they should be explicit factors in the criteria used during the PCC's deliberations since they will inform Council members' assessment of relevance in many cases. To illustrate, the FASB and PCC may evaluate the relevance of "APIC pools" under Topic 718 and uncertain tax positions under Topic 740 differently for private companies compared to their public counterparts.

We also note the first factor includes an assessment of "adjusted EBITDA." This may be difficult for the PCC to evaluate in practice since US GAAP does not define EBITDA or adjusted EBITDA. Perhaps further consideration is warranted to determine what an "adjusted EBITDA" assessment would provide that isn't otherwise available through an assessment of "reported cash balances" and "cash flows." In other words, the discussion paper states that adjusted EBITDA refers to "cash-adjusted earnings from operations."<sup>3</sup> It is unclear how this notion compares (or contrasts) with income from operations and/or cash flows from operating activities. If adjusted EBITDA is adopted as a factor in the final framework, a definition of that term would be necessary.

**Question 7: Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?**

We generally agree. We believe the factors in paragraph 2.3 are appropriate and should also be considered by the FASB in its disclosure framework project, rather than limiting them to this discussion paper. More specifically, a consideration of whether the accounting guidance is industry specific, the relevance of particular measurement attributes and other factors contemplated in this project would be relevant to the development of disclosure requirements for both public and private entities.

The discussion paper establishes a presumption that industry-specific disclosures are relevant to users of both public and private companies. We agree that this would typically be true, but believe the presumption may be rebutted in certain cases. For instance, our experience with community banks indicates that the cost/benefit relationship of providing the recently introduced credit quality disclosures<sup>4</sup> may differ between public and private financial institutions. While those disclosure provisions are not limited to specific industries, they affect traditional banking-type institutions to a great extent. In many cases, banks have added multiple pages of additional footnote disclosures related to credit risk. We are not certain such extensive disclosure is necessary for a private bank, consistent with comments we provided on the Board's 2009 exposure draft related to credit quality. Such financial statements are usually issued to a small number of individuals that own the bank and who are able to discuss the bank's exposure to credit risk with management on a real time basis. Therefore, we would encourage the FASB and PCC to more clearly state in the final framework that the presumption of requiring equal disclosures for public and private

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<sup>2</sup> Paragraphs DF8 and DF9.

<sup>3</sup> Paragraph DF3.

<sup>4</sup> ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*



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entities, including industry-specific disclosures, may be overturned depending on the circumstances.

**Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?**

We agree. Based on our experience, we do not believe presentation and display guidance has historically been a significant source of complexity for private companies, and wouldn't expect this aspect to require significant deliberation before finalizing the framework.

**Question 9: Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred effective date, do you agree that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?**

We agree on both points.

**Question 10: Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?**

We agree with a different transition method for private companies. In fact, we recommend starting with a presumption of prospective adoption. We believe this is an important area where additional relief may be extended to private companies, while the PCC and FASB would retain the ability to require retrospective adoption if it is warranted. We also observe that many private companies may have the option to present a single year of financial statements, regardless of a retrospective adoption requirement.

**Question 11: Do you agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8-B23 in Appendix B)? If not, why?**

Yes, we generally agree. We suspect most private subsidiaries of public companies will choose to continue reporting on a "public company" basis, but do not see a reason to preclude such an option for them.

**Question 12: Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.**

We recommend providing guidance for transitioning in and out of the private company framework. When a private company goes public, or a public company goes private, questions will arise regarding what the appropriate transition method is: whether prior



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periods should be restated, whether a cumulative adjustment is required in the current period, or whether such adjustments are only made on a prospective basis.

Question 13: The staff acknowledges the importance of the decision to be reached by the Board and the PCC on whether to require a private company that elects to apply any difference in recognition or measurement guidance provided under the framework to apply all existing and future differences in recognition and measurement guidance. Below, the staff has included some initial observations raised by a limited number of stakeholders about this topic. The staff is seeking to obtain broader input to help inform the Board and the PCC as they further assess the implications of this decision.

Some users of private company financial statements stated that they prefer an *all or nothing* approach of applying recognition and measurement differences to achieve consistency within a private company's financial statements and promote comparability among the financial statements of private companies that choose to apply all exceptions and modifications provided under the framework. Those users indicated that such an approach would reduce the confusion that they may experience if private companies are allowed to select which differences they wish to apply. The users acknowledged that the extent of that confusion will depend on the number of recognition and measurement differences that are ultimately permitted and the nature of those differences. However, most of the users stated that they do not object to allowing private companies the option of applying some, none, or all of the permitted differences in disclosure, display, effective date, and transition method guidance.

Most preparers of private company financial statements acknowledged the concerns of some users, but stated that preparers should be allowed an option to select the differences provided under the framework that they wish to apply. Those preparers pointed to the possibility that not every permitted difference in recognition and measurement guidance may provide the most relevant information to users of their financial statements or for the companies operating in their industry. Some preparers also shared concerns about being required to make an initial commitment to apply all future differences permitted under the framework without knowing the nature or volume of the recognition and measurement differences that the Board and the PCC may ultimately provide.

a. Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.

We believe preparers should have a choice to select some, none, or all of the differences in recognition and measurement guidance available to private companies. We agree with the preparers who have highlighted the possibility that not all accounting differences may provide the most relevant information to users of their statements. This is consistent with our expectation that subsidiaries of public companies may decide to continue reporting on the basis of public company US GAAP to their parents. In addition, we note users of a



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private company's statements will have the benefit of footnote disclosure regarding which private company differences have been elected, as well as the ability to discuss such matters with the private company's management.

**b. Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13(a).**

Yes, we believe a private company should have the same flexibility for the reasons described in our response to Question 13(a).

With respect to transition, we are confused by the guidance in paragraph 5.5 addressing the first two factors in paragraph 5.4 and the related flowchart in paragraph 5.7. The two factors are:

- a. Do the amendments affect reported cash balances, cash flows, or adjusted EBITDA?
- b. Do the amendments affect the comparability of other important amounts and metrics used by many private company financial statement users, including total debt, liquidity, or leverage ratios?

A positive response to either question indicates the amendments are relevant to private companies. We would expect that outcome to suggest the same transition for public and private companies. However, the discussion paper indicates that a "yes" response should lead to an alternative transition method (e.g., prospective adoption). Further, amendments that do not affect these two factors (i.e., a "no" response) would lead to the same treatment as public companies, despite the fact that they are not considered relevant to private companies. We find this analysis counterintuitive and recommend reconsidering it.