



ILLINOIS CPA SOCIETY

October 12, 2012

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

File Reference No. 2012-230

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies* (the “Discussion Paper”), which the Financial Accounting Standards Board (FASB) and the Private Company Council (PCC) will use in developing U.S. GAAP for private companies. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

We appreciate the Board’s efforts and are supportive of the progress being made in the area of private company reporting. We generally agree with the overall framework described in the Discussion Paper, but as a committee we are divided on the prospect of potential differences in recognition and measurement that may result from this project. Please refer to our response to Question 6 for additional commentary on the matter.

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

The organization and operating procedures of the Committee are outlined in Appendix A to this letter. However, the majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors, accountants in industry, or in academia.

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.*

While there may be additional differential factors between private companies and public companies, the Committee believes they are de minimis in nature. The Committee believes the staff has identified and focused on the appropriate “Significant Differential Factors” between private companies and public companies that are presented in paragraphs DF1 – DF13.

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?*

The Committee supports most of the staff recommendations and believe those recommendations will result in a framework that would provide relevant information in a more cost-effective manner for private companies. However, some members of our Committee recommend that differences in recognition and measurement, as discussed below in Question 6, be avoided.

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 the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?*

The Committee agrees that both private companies and public companies should continue to apply the required industry guidance due to characteristics and nuances relevant and unique to those industries. If industry guidance became watered-down, our Committee believes financial reporting would be taking a significant step backwards instead of forwards.

5. *a) 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, b) 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?*

- a) The Committee believes the main purpose of the modified private company GAAP is to address the needs of private company financial statement users. As documented in the Discussion Paper and communicated during several outreach efforts by the Board, many private company financial statement users have direct access to company management and can obtain additional information from the company. Users of public company financial statements do not have the same level of access to management and have a higher level of reliance on the information contained in the financial statements.
- b) In our experience, users of private company financial statements often only skim the detailed notes and then discuss further with the private company's management. The *red-flag approach* as described in paragraphs BR43 and BR44 implies that the amount of prior, non-financial statement disclosure that is made to a particular preparer's users would influence the extent of financial statement disclosure necessary to satisfy GAAP disclosure requirements. This additional subjectivity regarding the necessary depth of financial statement disclosure increases the difficulty for auditors to apply their judgment, as it may not be feasible to test and verify that a preparer's limited disclosures are appropriate given prior non-financial statement disclosures to its users.

6. *Has the staff identified the appropriate questions for the Board and the PCC to consider in 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?*

While the staff has identified relevant questions to consider as it relates to the relevance and cost-benefit, as a Committee, we are divided on whether the proposed framework should include consideration of differences in recognition and measurement.

Certain Committee members find it troubling that the underlying accounting for a transaction would differ depending on whether an entity is a private company or public company. Those Committee members believe that recognition and measurement requirements should not be different for private and public companies. Those Committee members believe that the critical issue is providing disclosure and financial statement presentation relief to private companies. If recognition and measurement issues are considered too burdensome for a private company, equal consideration should be given to public company preparers regarding the cost-benefit and relevance of the guidance in question. A public company should be afforded the same relief as a private company (see ASU 2011-08| Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment).

Additionally, if a private company is not able to apply the recognition and measurement principles properly under GAAP, they may be better suited for an alternative basis of accounting, such as the AICPA's Financial Reporting Framework for Small- and Medium-sized Entities.

Other Committee members believe that some recognition and measurement differences between public and private companies may be appropriate. One of the key differences between the users of public and private companies may be users' evaluation of balance sheets as a tool to assess credit risk versus expectations of the entity's future cash flows. Private company financial statement users who are creditors may prefer financial statements that exclude the consolidation of variable interest entities of whose assets the creditor has no access.

A second example is measuring the change in the fair value of certain derivatives, such as interest rate swaps, in accordance with Topic 820. Some of the requirements of Topic 820, for example, the consideration of the effect of own and counterparty credit risk on the measurement, require technical valuation skills that are not found within many private companies. In addition, the information generated through application of those requirements may not be relevant to the users of the private company's financial statements, in particular in situations where the primary user is the same bank that provided the loan and the related interest rate swap. An alternative measurement attribute (e.g. present value) for such derivatives may be justified on cost-benefit grounds. Alternatively, permitting the swap and related debt to be presented as a single synthetic debt instrument at amortised cost may produce an informative result while avoiding the costs and complexities of current hedge accounting requirements.

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?*

Yes. The Committee notes that the disclosures listed are of utmost importance to the majority of users of private company financial statements. Because the needs of users are the main justification for the development of private company modified GAAP, these disclosures should be kept complete under GAAP.

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

The Committee believes that there will be times when a private company will need to obtain relief from the required display guidance under GAAP. One area that the Committee believes the staff should focus on is in the area of presentation of Other Comprehensive Income, as this may not be entirely relevant to the users of private company financial statements.

9. *a) 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? b) 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?*

a) Yes. We believe a minimum of one year should be provided for private companies, if not additional year(s) depending on the complexity of the guidance. For example, some guidance takes more than one year for public companies to implement and the consultants assisting those public companies may also be needed to assist private companies in implementing too. Bottom line, it comes down to the complexity of the guidance and the availability of resources to private companies to ensure a successful implementation.

b) Yes.

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?*

Yes. For example, private companies should potentially be allowed prospective treatment of new guidance due to the costs and human capital associated with retrospective treatment for private companies.

11. *Do you agree with the basis for 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?*

The Committee agrees with the items the Board has tentatively decided would be an indicator that an entity is not a private company (as described in paragraph B6).

However, the Committee is cautious about the potential for certain entities, for example a financial institution, to be considered in the scope of this framework (paragraphs B8-B23 in Appendix B). The stakeholders of the entity should be significantly considered in this decision. For example, if a financial institution has only twelve investors, it may be appropriate for this institution to be considered within this framework due to their assumed access to management. However, if a financial institution (e.g. a local bank) has a sizeable amount of stakeholders, a presumption could be made that not all stakeholders have direct access to management and therefore would presume a higher level of oversight and reporting.

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.*

None.

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.*

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.*

Should the staff decide that recognition or measurement differences are necessary for certain items, we believe those private companies that elect to apply those differences should be required to apply all existing and future differences in recognition or measurement guidance. Allowing an entity to selectively choose their recognition or measurement guidance would create an increased burden for preparers and auditors in the form of expanded accounting policy disclosures and a potential reduction in the comparability of disclosures between entities.

It is not uncommon for lenders to private companies to accept financial statements without footnote disclosures. In those situations, if private entities are allowed to selectively choose recognition or measurement guidance, the result will be financial statements for which the comparability between entities will be impossible. The lack of comparability between entities will likely result in lenders requiring that those entities to provide footnote disclosures and increased disclosure requirements would result in increased compliance costs for such preparers.

For those situations in which it is more meaningful for an entity and its financial statement users to select recognition or measurement guidance that spans public entity and private entity standards, we believe the entity should describe such differences in the form of a GAAP departure.

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).*

No. If private companies are allowed to choose which differences from which they would like to apply and which they would not, this would only add to the complexity and documentation length of the disclosures as the financials would have to clearly state which modifications/differences, the preparer used versus stating only that the financial statements were prepared under GAAP or private company modified GAAP. Preparers who wish to use portions of the private company modified GAAP, could be given the option to choose an other comprehensive basis of accounting (OCBOA) method, such as the AICPA model previously mentioned in Question 6.

We appreciate the opportunity to offer our comments.

Sincerely,

**Jeffery P. Watson, CPA**  
Chair, Accounting Principles Committee

**Scott G. Lehman, CPA**  
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2012-2013

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
John A. Hepp, CPA	Grant Thornton LLP
Gergana G. Gencheva	McGladrey LLP
Scott G. Lehman, CPA (Vice Chair)	Crowe Horwath LLP
Elizabeth A. Prossnitz, CPA	BDO USA LLP
Robert B. Sledge, CPA	KPMG LLP

**Medium:** (more than 40 professionals)

Michael Kidd, CPA	Mowery & Schoenfeld LLC
Tad N. Render, CPA	Miller Cooper & Company Ltd
Steven C. Roiland, CPA	Kessler Orlean Silver & Co., PC
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

**Small:** (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Brian T. Kot, CPA	Cray Kaiser Ltd CPAs
Jeffery P. Watson, CPA (Chair)	Shepard Schwartz & Harris LLP

**Industry:**

Rose Cammarata, CPA	CME Group Inc.
Timothy R. Henrichs, CPA	Follett Corporation
Farah. Hollenbeck, CPA	Abbott Laboratories
Joshua D. Lance, CPA	N Pritzker Capital Management LLC
Marianne T. Lorenz, CPA	AGL Resources Inc.
Michael J. Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda M. Rzepka, CPA	Jet Support Services, Inc.

**Educators:**

James L. Fuehrmeyer, Jr., CPA	University of Notre Dame
Leonard C. Soffer, CPA	University of Chicago

**Staff Representative:**

Gayle S. Floresca, CPA	Illinois CPA Society
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