



2012-230  
Comment Letter No. 24

JEFFREY L. GERHART  
*Chairman*  
WILLIAM A. LOVING, JR.  
*Chairman-Elect*  
JOHN H. BUHRMASTER  
*Vice Chairman*  
NANCY A. RUYLE  
*Treasurer*  
STEVEN R. GARDNER  
*Secretary*  
SALVATORE MARRANCA  
*Immediate Past Chairman*  
CAMDEN R. FINE  
*President and CEO*

October 31, 2012

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

Re: Private Company Decision-Making Framework, A Framework for Evaluating  
Financial Accounting and Reporting Guidance for Private Companies

File Reference No. 2012-230

Dear Ms. Cospers:

The Independent Community Bankers of America (ICBA)<sup>1</sup> appreciates the opportunity to provide comments on the Financial Accounting Standards Board's (FASB) discussion paper, *Private Company Decision-Making Framework, A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*. ICBA is very encouraged by the work of the FASB and the newly formed Private Company Council (PCC) to formally address the ever increasing reporting and disclosure burden placed on private companies including privately-held community banks.

The creation of the six significant factors that drive the key financial reporting differences between public and private companies goes a long way in addressing the reporting burden. However, the staff's presumption that industry-specific guidance should generally not be tailored to the unique reporting characteristics of private companies should not be relied upon. ICBA believes that there will be many instances in the future where expanded disclosures will be called for and community banks will not

---

<sup>1</sup> The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With nearly 5,000 members, representing more than 23,000 locations nationwide and employing more than 280,000 Americans, ICBA members hold more than \$1.2 trillion in assets, \$1 trillion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

have the appropriate resources available to fully meet the reporting obligation. Additionally, when assessing the impact of the reporting burden on private companies, due consideration should be given to the expenses of the outside audit firm with the understanding that as auditor expenses increase, audit fees paid by the client increase accordingly. Finally, retrospective application of any accounting changes, whether through reporting or disclosure, will almost always adversely impact a private company more than their public counterpart simply because the necessary infrastructure will not be readily available to private companies. This lack of readily deployable resources will be a significant barrier to adoption for privately-held community banks.

## **Background**

FASB is seeking comment on its draft decision-making framework for determining when the accounting requirements for private companies including non-public community banks<sup>2</sup> under generally accepted accounting principles (GAAP) should be modified based on the specific needs of private company stakeholders and other private company financial statement users. The adoption of this framework for private companies comes directly from the recommendations of the Blue-Ribbon Panel on Standard Setting for Private Companies in 2011. The FASB staff has identified six key themes that help to identify the differences between public and private companies. Those themes are identified as follows:

1. Types and number of financial statement users
2. Access to management
3. Investment strategies
4. Ownership and capital structure
5. Accounting resources
6. Learning about new financial reporting guidance

Through these six themes, known by the staff as differential factors, both the FASB and the PCC can determine whether any proposed accounting guidance will provide useful information to stakeholders at a reasonable cost. The staff's framework for assessing the need for differentiation for private companies is based on the following: determining recognition and measurement guidance; determining disclosure requirements; determining display requirements; determining the effective date of the guidance; and determining the transition method for applying guidance.

## **ICBA's Comments**

ICBA is very encouraged by the work of the FASB staff both in identifying the differential factors for private companies and the development of the private company decision-making framework. This undertaking has addressed the key concerns of private company financial statement preparers, especially when addressing the types and number of financial statement users. For many community banks, preparation of audited financial statements in accordance with GAAP is driven purely by a regulatory

---

<sup>2</sup> It should be noted that the FASB considered scoping in all financial institutions as public entities based on the belief that these entities were accountable to the public through their management of loans and deposits in a fiduciary capacity. This proposed alternative was rejected.

requirement as dictated by the bank's state charter. Shareholders and lenders may use this information because it is available. However, because audit requirements for small community banks differ from state to state, the information is not a cornerstone for key decisions. Rather, all interested parties including shareholders and lenders rely on the prudential regulation of community banks and the publicly available quarterly call reports to assess financial condition and activity.

Ownership and capital structure is also correctly identified as a key focus for private company differentiation. In addition to the pass-through nature of the equity ownership that is driven primarily by income tax implications, ICBA believes that the actual number of shareholders should be a determining factor in private company differentiation as well as the nature and purpose of their investments. Investors in private community banks are long-term shareholders who care very little for certain financial statement disclosures that represent short-term volatility and cloud the focus of providing quality financial information that is relevant over long periods. Presentation of financial instrument fair value for investment securities held for the collection of contractual cash flows is a perfect example of this distortion.

ICBA notes that, when determining the appropriate recognition and measurement guidance that is tailored to specific industries, as well as when determining disclosure requirements for the companies in those industries, the staff has concluded that there should be a presumption that the same guidance is appropriate for both public and private company financial statement users based on the unique nature of the guidance. This presumption is not valid for large and diverse industries like banking and lending that operate under many different business models and vary greatly in size and complexity. Although there certainly will be situations where recognition and measurement guidance will impact only financial intuitions because they principally participate in specific types of financial instruments, this conclusion should not be made without the appropriate due consideration of all differential factors.

For example, the FASB may conclude during deliberations on financial instruments that fair value is the appropriate measurement classification for financial institutions that hold a specific type of unique financial instrument. However, fair value measurement under many circumstances represents a very subjective and irrelevant measure that provides very little or no useful information for stakeholders, particularly for small financial institutions that do not trade financial instruments. Additionally, due to the subjective nature of fair value for illiquid instruments, the costs involved in obtaining a fair value in accordance with the exit price notion may be cost prohibitive for many privately-held community banks. In this case the cost hurdle should be sufficiently studied to ensure that scope exclusions or modifications are considered where appropriate.

**Therefore, ICBA is asking for the FASB and the PCC to make changes to its recognition, measurement, and disclosure framework for private companies to properly reflect the need to tier disclosures for industry-specific guidance when the costs associated with the guidance outweigh the benefits.**

The effective date determination discussion and the consideration of the first required implementation date for private companies is a very important issue both for private financial institutions and their auditors, who generally will incur additional costs to ensure that the appropriate recognition and measurement principles are employed properly. While determining when amendments should become effective for private companies, the costs associated with conducting an audit should not be ignored by both the FASB and the PCC. Additionally, ICBA does not believe that the retrospective or modified retrospective methods of applying guidance should be applied to private companies, especially privately-held community banks. Retrospective application, although useful for comparability when applied to large, publicly-traded companies, is cost prohibitive for private companies that will almost always lack the appropriate staff and technological resources needed to produce historical numbers in a vendor-driven application with limited flexibility. The alternative is often a one-time, customized build that requires the use of third party consultants and software developers with a price tag that may present high barriers to implementation for many private companies. Some companies will be forced to resort to low cost alternatives, which may distort the quality of the required information.

**Therefore, ICBA is asking for the FASB and the PCC to consider audit fees and expenses when considering an effective implementation date for private companies. Additionally, ICBA requests that prospective application become the default approach when applying amendments to GAAP. When a retrospective approach is considered, an appropriate analysis on the costs needed to properly apply the amendments should be conducted to ensure that a retrospective application does not present a significant barrier to adoption.**

ICBA appreciates the opportunity to comment on this discussion paper. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or [james.kendrick@icba.org](mailto:james.kendrick@icba.org).

Sincerely,

/s/

James Kendrick  
Vice President, Accounting & Capital Policy