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November 9, 2012

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

**RE: File Reference No. 2012-230: Private Company Decision-Making Framework,  
“A Framework for Evaluating Financial Accounting and Reporting Guidance for  
Private Companies”**

Dear Technical Director,

We appreciate the opportunity to respond to the Discussion Paper on the “Private Company Decision-Making Framework.” We support the efforts of the FAF and the FASB to give greater consideration in the standard-setting process to the needs of users of private company financial statements.

We believe that modifications to financial reporting standards for private companies should be based on differences in information needs of the users of the financial statements. As noted in our January 5, 2012 letter to the Financial Accounting Foundation regarding the plan to establish the Private Company Council, the development of the framework and criteria for assessing whether modifications to U.S. GAAP should be made for private companies will require comparative research to understand the differences in information needs of private and public company financial statement users. While the Discussion Paper identifies distinguishing characteristics of private companies and their users, it is not clear how those distinguishing characteristics translate into an identification of differential information needs of private company financial statement users. To determine whether modifications to financial reporting standards for private companies are appropriate, it is necessary to undertake additional research to identify the specific information needs of investors, creditors, and other external users of both public and private company financial statements so that those information needs can be compared. This comparison of the information needs of users of public and private company financial statements should form the basis for identifying what differences exist in the information needs of private company financial statement users. Those identified differential information needs could then form the basis for determining whether exceptions or modifications to U.S. GAAP would better meet the information needs of private company financial statement users.

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### ***Complexity of Accounting Standards***

The Discussion Paper also discusses concerns about the complexity of accounting standards and the costs (and presumably related benefits) of applying them. While we agree that these are important considerations in the standard setting process, we do not believe that these considerations are unique to private companies. The SEC's Advisory Committee on Improvements to Financial Reporting recommended that standard setting should look to reduce "avoidable complexities" that do not provide useful information to investors and we believe this objective is equally important to public and private companies. As an example, the Board's recent standards on qualitative assessments of goodwill and indefinite-lived intangible assets for impairment demonstrated that issues about the complexity of accounting standards, while initially raised by private company constituents, often apply to public companies as well. In that regard, we believe the PCC can be helpful to the FASB in identifying opportunities to reduce the avoidable complexity of accounting standards for all companies. To do so, the assessment of costs and complexity should focus first on potential reductions of avoidable complexities in U.S. GAAP for all financial statement preparers and users.

The Discussion Paper indicates that the PCC should look to practical expedients, or a more cost-effective way of achieving the same or a similar accounting or reporting objective, when evaluating modifications to U.S. GAAP for private companies. We believe that practical expedients designed to achieve substantially the same accounting result should be considered for public companies as well as private companies.

Although modifications to U.S. GAAP may reduce avoidable complexity in the application of specific standards for private companies, the analysis of whether there should be differences and, if so, in what circumstances and how the standards would differ should include consideration of the impact on users that may result from having substantially different accounting principles for public and private companies.

### ***Access to Management***

While we understand that for a number of private companies the principal financial statement users may have greater access to management than users of public company financial statements, we are unclear how this differentiating characteristic helps inform the PCC and FASB about whether there should be differential reporting requirements in recognition and measurement for general purpose financial statements of private companies. A presumption of access does not address whether the information in question is useful or appropriate for inclusion in general purpose financial statements and does not provide any assurance that such additional information would actually be available to the users if they requested it.

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### ***Application of Potential Differences***

Subject to development of an appropriate decision-making framework and assuming recognition and measurement differences are not so extensive as to create a fundamentally different basis of accounting, private companies should have the option of applying exceptions or modifications on an individual basis. Consistent with the staff recommendation in paragraph 1.10, the financial statements should be clear and transparent as to which requirements are being applied. Indeed, since some differences exist currently, the FASB, with input and assistance from the PCC, should consider whether such a distinction should be disclosed more clearly under current financial reporting standards.

The Discussion Paper does not address how a private company would transition from its current accounting to U.S. GAAP for private companies or how a private company applying U.S. GAAP for private companies would transition to U.S. GAAP for public companies. We believe retrospective application would be required when transitioning from private company GAAP to public company GAAP. However, transition from public company GAAP to private company GAAP may depend on the specific differences involved and which recognition and measurement differences are elected by the company.

### ***Definition of Nonpublic Entity***

Paragraph B15 of the Discussion Paper states, “The Board determined that a financial institution could be considered within the definition of a private company, but could be excluded from the scope of specific exceptions or modifications provided for private companies if it is determined that those differences would adversely affect the relevance of information provided to financial statement users.” If financial institutions, or any type of entity, would not be permitted to apply certain exceptions or modifications to GAAP, we question whether these entities should be included within the definition of private companies. Excluding entities from certain modifications would increase complexity for users of those financial statements and would be contrary to the concept of “U.S. GAAP for private companies.”

### ***Other Considerations***

Overly cumbersome disclosure requirements are not unique to private companies, as illustrated by the early efforts on the FASB’s Disclosure Framework project. We encourage the FASB and PCC to draw on the Board’s disclosure framework project to inform decisions about differential disclosures for private company financial statements.

It is unclear how the PCC will interact with the FASB and EITF on ongoing standard-setting activities to advise them on private company considerations. The PCC will serve as the primary advisory body to the FASB on private company considerations for ongoing Board projects, but it is not clear what the due process steps are intended to be for ongoing FASB and EITF projects. The process for the PCC’s involvement in FASB and EITF projects should be developed and exposed for public comment.

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As the FASB staff's recommendations for a decision-making framework has not been deliberated by the PCC or the FASB, we believe a framework proposed by the PCC and the FASB should be subject to due process including being exposed for public comment.

The appendix to this letter includes our responses to certain questions in the Discussion Paper.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419, [mbielstein@kpmg.com](mailto:mbielstein@kpmg.com) or Paul Munter at (212) 909-5567, [pmunter@kpmg.com](mailto:pmunter@kpmg.com).

Sincerely,

**KPMG LLP**

## APPENDIX 1

### Private Company Decision-Making Framework Discussion Paper Questions and Responses

Question No.	FASB Staff Question	KPMG Response
<b>Decision-making Framework</b>		
Question 2	<p>Has the staff identified and focused on the appropriate <b>differential factors</b> 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.</p>	<p>It is unclear how the characteristics identified by the staff relate to differential information needs of users of private company financial statements and how the Board and PCC would use those differentiating factors in concluding whether, and if so, what exceptions or modifications to U.S. GAAP should be permitted or required in private company financial statements.</p> <p>As discussed in our accompanying letter, we believe that additional research that identifies specific information needs of public company and private company users and then compares those needs is necessary to identify differential information needs of private company users. We believe that differential factors considered by the FASB and PCC should be based on differential information needs.</p>
Question 3	<p>Overall, do the staff recommendations result in a framework that would lead to decisions that provide <b>relevant information</b> to users of private company financial statements in a more <b>cost-effective manner</b>? If they do not, what improvements can be made to achieve those objectives?</p>	<p>Although the framework attempts to focus on user needs, it does not necessarily identify differences in information needs of users of private company financial statements as compared to users of public company financial statements. Some of the identified differential characteristics, such as number and type of financial statement users, ownership and capital structures, accounting resources and learning about new financial reporting guidance, also could apply to some public companies, particularly smaller public companies. As discussed in our response to question 6 below, it is unclear how responses to the identified considerations for potential differences in recognition and measurement would differentiate needs of users of private</p>

Question No.	FASB Staff Question	KPMG Response
		company financial statements from users of public company financial statements.
Question 4	Do you agree that private companies that apply <b>industry-specific accounting guidance</b> 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?	Although we generally agree that industry-specific guidance would provide information that would be relevant to financial statement users of both public companies and private companies operating in those industries, the same concept could apply to other accounting standards that are not industry-specific accounting guidance. Optimal accounting standards should result in similar recognition and measurement for similar activities regardless of industry.
Question 5	Do the different <b>areas of the framework</b> appropriately describe and consider the primary <b>information needs of users</b> of private company financial statements and the ability of those users to <b>access management</b> , and does the <b>disclosure area of the framework appropriately describe the red-flag approach</b> often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?	We do not believe that a presumption of access to management informs a standard setter about how the information needs of private company financial statement users might differ from those of public companies and therefore we are unclear how this distinguishing characteristic would be helpful to the FASB and PCC in determining whether exceptions or modifications to U.S. GAAP for recognition and measurement requirements are appropriate. Additionally, access may not actually exist in all cases and access does not necessarily suggest the user does not need the information or the information is not appropriate to include in general-purpose financial statements. While access to management may be a consideration in evaluating whether differential disclosure requirements would be appropriate, the FASB and PCC should also consider the work being performed on the FASB's disclosure framework project.
Question 6	Has the staff identified the appropriate questions for the Board and the PCC to consider in the <b>recognition and measurement</b> area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why,	Any differences in recognition and measurement standards should be based on differences in the needs of financial statement users as discussed above. It is not clear how the questions in paragraphs 1.5 and 1.6 would

Question No.	FASB Staff Question	KPMG Response
	and what additional factors should be considered?	<p>identify differential information needs of users of private company vs public company financial statements. Questions (a) through (j) appear to capture most transactions recorded in accounting records. It is unclear how responses to those questions would differentiate needs of users of private company financial statements from users of public company financial statements that would suggest that there should be differences in recognition and measurement provisions of accounting standards.</p> <p>We do not understand the purpose of question (f) or the basis for question (h). We note that standards that attempt to reduce accounting volatility also frequently increase complexity in financial reporting (e.g., hedge accounting). As noted previously, we do not believe that a presumption of access to management informs the FASB and PCC about differential information needs of private company users and, therefore, question (i) is not an appropriate consideration. In addition, it is not clear how that question would impact recognition since the entity presumably would still need to account for the transaction. We also do not understand the relevance of question (j) as a consideration of individual exceptions or modifications to U.S. GAAP.</p>
Question 7	Has the staff identified the appropriate areas of <b>disclosure focus</b> 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?	It is not clear how these focus areas differ from focus areas of users of public company financial statements. We believe that efforts to reconsider disclosure requirements for private companies should be coordinated with and informed by the Board's disclosure framework project.
Question 8	Do you agree that, generally, private companies should apply the same <b>display guidance</b> as public companies? If not, why?	Yes.

Question No.	FASB Staff Question	KPMG Response
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 <b>effective date</b> , 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 that private companies generally should be allowed a one-year deferral beyond the first annual period required for public companies to adopt new guidance with the option to adopt the amendments at the same time as public companies.
Question 10	Do you agree with the staff recommendation that some circumstances may warrant consideration of different <b>transition methods</b> 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, however private companies should have the option of following public company transition requirements.
<b>Non-public Definition</b>		
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?	As noted in paragraph B15 related to financial institutions, the Board may conclude that financial institutions could be excluded from the scope of certain modifications that would otherwise apply to private company financial institutions. We assume that also may be the case for other types of private companies. If financial institutions, or any type of entity, would not be permitted to apply certain exceptions or modifications to U.S. GAAP, we question whether these entities should be included in the definition of private companies.
<b>Adoption of any exceptions or modifications</b>		
Question 13	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	If differences in recognition and measurement are few in number, we believe a private company should have the option to elect each exception or modification individually provided

Question No.	FASB Staff Question	KPMG Response
	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.	that there is clear and transparent disclosure of the exceptions or modifications applied as suggested in paragraph 1.10.
	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).	We also believe that private companies should have the option of applying some, none, or all of the permitted differences in disclosure, display, effective date, and transition method guidance.  Financial statements should be clear and transparent as to which requirements are being applied.