October 25, 2012

Technical Director
Financial Accounting Standards Board
File reference No. 2012-230

Mail to Director@fasb.org

Re: Private Company Decision-Making Framework

The Accounting Principles and Auditing Standards Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) is pleased to provide our comments pursuant to the Invitation to Comment on the Private Company Decision-Making Framework.

The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee is composed of 49 members, of whom 53 percent are from local or regional firms, 27 percent are from large multi-office firms, 10 percent are sole practitioners in public practice, 8 percent are in academia, and 2 percent are in an international firm.

We have provided responses below to the questions requested in the Invitation to Comment.

Questions for Respondents

**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.

   California Society of CPAs (CalCPA) Accounting Principles and Auditing Standards Committee – We speak for the 40,000 members of the CalCPA.

**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.

Yes, we believe the staff has identified and focused on the appropriate differential factors.
**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?

No, we do not believe the recommendations would lead to decisions that provide relevant information in a more cost-effective manner.

¶1.2 uses “relevance” as a threshold. We think it would be generally fair to say that U.S. GAAP provides relevant information. The issue is whether the information should be provided in the financial statements. Also, relevant is not the same as “necessary”. Relevance for large and public entities can differ from relevance for smaller or private companies. This runs to both measurement and disclosure. For example, many would agree that capitalization of interest, considered relevant for public companies, is not relevant for private companies. Similarly, accounting for deferred income taxes is generally considered relevant for all affected entities, but practical alternatives to complex calculations would seem to be warranted for private companies. At some level, almost any information can be considered relevant, although it may not be necessary, so the criterion should be recast to “relevance and necessity.”

¶1.3 talks about “practical expedients” as possibly being available. We believe they are generally available and therefore the need for the financial statements to be the source of the information is generally absent. This is recognized in ¶1.7, but soft-pedaled; the statement should be more forceful about this being a good reason for a differential standard.

In ¶1.6 cost and complexity should be the primary filter; if the measurement or disclosure is costly or complex, then its necessity should be considered in view of the relevance; if it is considered relevant then a practical expedient should be created to reduce cost or complexity. Exceptions and modifications to reduce cost and complexity should always be considered.

¶1.8 gives too much weight to getting permission from users. Users with specific needs can directly deal with the entity. Achieving a consensus from users will be a high bar and will result in little change. (See also ¶2.5)

¶1.9 will operate to undermine the valid view that access to management is a key difference between public and private company reporting.

**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?

Yes, private companies should follow the basic guidance, but relevance and necessity, cost and complexity, and practical expedients should be considered for the industry-specific guidance.

**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?

Yes and no. Although the framework seems to say the right things about reducing disclosure based on access to management, ¶2.1 once again undermines the concept by saying “If the Board and the PCC determine that a disclosure provides relevant information to typical users of private company financial
statements at a reasonable cost, generally no exception or modification should be considered.” How are the Board and PCC possibly going to evaluate this disclosure by disclosure including the reasonableness of the cost for every entity that might be involved? It’s impossible and therefore the tendency will be to err on the side of conservatism resulting in little actual reduction of disclosure for the private companies.

See also ¶2.7 for more undermining.

This raises the question of whether we should be restricting the report to certain parties when we decide to reduce certain disclosures. Are the statements full GAAP unless we restrict the use? If it is not full GAAP, what is it?

**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?

The key question is (i) under 1.5. If the answer is “yes”, do the other questions really need consideration?

**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?

These areas are appropriate.

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

No – if the display is determined by the SEC. Yes – if the display is determined by the FASB.

**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?

The one-year deferral is acceptable, but immediate adoption (at permitted date of public companies) should be permitted.

**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?

Yes, we agree that different transition methods may be warranted. For example, retrospective restatement can be complex and costly for an entity. The comparability achieved by retrospective restatement may be cost-beneficial for public companies, but such comparability may not be as important for private companies. The PCC should consider whether prospective or “cumulative catch-up” should be the general rule for private companies, with retrospective restatement required only in unusual circumstances. The situation cited in ¶5.6 may likely be the case in most situations.
**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 agree.*

**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 have no additions to the types of entities to be considered, but suggest that entities which accept deposits from the public (e.g., banks and trust companies), or are the beneficiaries of government sponsored insurance programs, have a sufficient public accountability that they should not be considered private companies.

**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.

1. 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.

   *If the PCC is creating a framework for private companies, then all guidance should be applied. If preparers and users are to understand financial statements under that framework, guidance must be applied consistently by all entities using that framework, and report any failure to apply that framework as an exception (similar to how exceptions from GAAP are currently reported). Otherwise, there will be no framework, but a system of applying a confusing mélange of differences in recognition or measurement.*

2. 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).

   *Disclosures beyond those required by the framework would be voluntary, but if an entity considers them to be important in its circumstances, disclosures should not be precluded. Similarly, if an entity wants to early adopt a new standard, it should be permitted, although there may be exceptions to this if there is a deferred effective date for public entities. There should generally be no variations in display, absent materiality considerations. Transition methods should be prescribed, but if an entity chooses to retrospectively restate its financial statements even though it is not required, it should be permitted to do it, as retrospective restatement has been endorsed by the FASB as the preferred implementation method.*
We offer the following additional comments that are not directly addressed by your questions:

A critical question is whether there should be multiple applicable financial reporting frameworks. The FASB has GAAP; the AICPA has OCBOA; the IASB has IFRS and IFRS for SME; and now the PCC will add another framework.

FASB should consider using IFRS for SME as a starting point for its framework. This has the advantage of work already done in a similar body and may serve eventually as a basis for convergence of accounting standards for private companies. While there are some differences in measurement between GAAP and IFRS which may be considered fundamental even after adaptation for private companies, these appear to be relatively few. Further, IFRS for SME do reflect a number of differences in recognition and measurement as compared with “full IFRS” (e.g., no capitalization of interest) that might serve as a useful reference point in simplifying recognition and measurement for a U.S. framework.

The FASB and the PCC need to establish an aggressive timetable to complete the framework. There has long been a need to accommodate the unique needs of private companies, but very little tangible effort by the FASB. Failure to deliver timely results on this private company project will inevitably cause questions as to the sincerity and credibility of the FASB in a project of this type, and could even lead to another body attempting to undertake the project.

We thank you for the opportunity to provide our comments on this Invitation to Comment. We would be glad to discuss our comments with you further should you have any questions or require additional information.

Very truly yours,

Howard Sibelman, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants