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Technical Director
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Financial Accounting Standards Board
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the staff paper Private Company Decision-Making Framework.

The Invitation to Comment (ITC) on the draft framework demonstrates the FASB's (the Board) continuing efforts to address the specific financial reporting needs of preparers and users of private company financial statements. We support the establishment of a framework for determining when modifications to U.S. GAAP are appropriate for private companies. A framework for making these determinations will improve the consistency, transparency, and efficiency of the standard setting process for private companies.

Generally, we believe that the draft framework identifies the appropriate matters to consider when determining whether a modification is appropriate. It identifies the significant differentiating factors that could support financial reporting differences between public and private companies.

Our key observations are below.

Recognition and Measurement Differences

In most cases, the accounting that is relevant to users of public company financial statements is also relevant to users of private company financial statements. Accordingly, we believe that modifications to the recognition and measurement guidance for private companies should be rare and limited to instances where public and private company financial statement users have clearly different information needs. When determining whether this is the case, we agree that more weight should be placed on the relevance of financial information than cost and complexity considerations. However, we believe a beneficial element of the framework is the consideration of practical expedients as a more cost-effective way of achieving similar accounting objectives.
We believe that the questions in the proposed framework will adequately identify the information needs of private company financial statement users. We suggest that including questions aimed at identifying the unique information needs of public company users that are not relevant to private company users would also be helpful in determining where modifications should be considered.

All or Nothing

Whether a private company that applies recognition and measurement guidance provided under the framework should apply all existing and future modifications, the "all or nothing" approach, is an important question. We do not believe the intent of this framework is to create a separate set of U.S. GAAP for private companies. Rather, the intent is to improve the relevance of financial information for the users of private company statements while reducing the cost and complexity of reporting. Therefore, if alternative recognition and measurement is permissible for private companies, they should have the option to choose which method is most suitable for their users on a case-by-case basis.

Of course, the financial statements should adequately disclose the accounting methods applied. This would be consistent with accounting policy elections under U.S. GAAP today. Since we do not expect a significant number of differences in recognition and measurement for private companies, we believe that a limited expansion of the number of acceptable accounting policy choices will not be confusing to users.

Similarly, we believe that companies should have the option to choose which allowable modifications to adopt for purposes of disclosure, display, transition, and effective dates. Today, all companies have the option of disclosing information that is considered relevant to users if it does not contradict other reported information. It would be contrary to this practice to require private companies to provide less disclosure under an "all or nothing" approach. Also, prohibiting a private company from following more rigorous public company effective date and transition provisions under an "all or nothing" approach would not be in the best interest of its users.

Said simply, an "all or nothing" approach would limit a preparer's ability to select which modifications provide the most relevant and cost-effective information for users based on individual company considerations. If the "all or nothing" approach is chosen, we believe some private companies may elect not to apply the modifications available to them. They may be deterred because of uncertainty over the impact of unknown modifications to be provided by the Board and Council in the future and whether they would be acceptable to
them. This would be unfortunate and counter to the Board's and Council's intent to address the needs of private companies.

For these reasons, and because an "all or nothing" approach may, in effect, result in a separate set of accounting standards, i.e., "U.S. GAAP for private companies," we recommend that such an approach not be adopted.

**Opportunities Beyond Private Companies**

We agree that where the Board and Council identify cost-effective alternatives for private companies, this may benefit the Board's standard setting activities for public companies and non-profit entities. Accordingly, if a more cost-effective alternative that faithfully represents the economics of a transaction is identified for private companies, we believe the Board should consider extending that alternative to public companies and non-profit entities.

We recommend that consideration of public companies and non-profit entities be a required part of the Board's deliberations any time a modification is made or considered for private companies. There should be appropriate transparency of this consideration and why the change is or is not extended to public companies and non-profit entities.

Appendix A, attached to this letter, contains our responses to the Questions for Respondents, which expands on our comments above.

If you have any questions regarding our comments, please contact Elizabeth Paul at (973) 236-7270 or Bill Schramm at (973) 236-4586.

Sincerely,

[Signature]

PricewaterhouseCoopers LLP
Appendix A

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

PricewaterhouseCoopers LLP is one of the largest providers of private company audit and professional services in the U.S.

Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies? 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.

Since the population of private companies is so large and diverse, the development of a decision-making framework necessitates the use of some degree of generalization about the characteristics of private companies and the users of their financial statements. In that context, we believe that the staff has identified many of the differential factors between the majority of public and private companies. In applying the framework, it will be important for the Board and Council to remember the inherent limitation of using a framework that by necessity relies on these generalizations.

A differentiating factor that is not discussed in the ITC is the generally higher level of regulatory oversight of public companies. The accounting regulations written by the Securities and Exchange Commission, and its review and comment letter process, promote greater disclosure and more consistent application of U.S. GAAP by public companies. In contrast, private companies do not have a common regulator and, in general, are less regulated than public companies or are unregulated. As a result, there is greater variability in financial reporting, within the boundaries of U.S. GAAP, by private companies.

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 cost-effective manner? If they do not, what improvements can be made to achieve those objectives?

Overall, we believe that the staff recommendations could assist the Board and Council in making decisions that provide relevant information to users of private company financial statements in a cost-effective manner. While differences in recognition and measurement are expected to be limited, we believe that differences in transition methods, and in
disclosure and effective date requirements, could effectively reduce costs for private companies. We expect that there will not be significant differences in display between public and private companies.

The decision-making framework appropriately places primary importance on the relevance of financial information to users and places less weight on cost and complexity considerations, with which we agree. Nevertheless, we believe that actively seeking the availability of practical expedients as a more cost-effective way of achieving similar accounting objectives is a beneficial element of 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 that it should be presumed that industry-specific accounting guidance is relevant for private companies operating in the industry. However, we have not performed a comprehensive review of all industry-specific guidance. Accordingly, we are unable to assess whether there may be some opportunity to provide modifications based on the framework proposed.

**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? If not, why?

The ITC indicates that users of private and public company financial statements share many of the same needs. Specifically, these needs focus on information about cash flow and liquidity. The ITC then asserts that public company users often have needs beyond those of private company users. We agree and encourage the staff to continue its analysis to identify the specific incremental needs of users of public company financial statements. This will assist the Board and Council in determining whether certain modifications for private companies are appropriate.

We agree that private company users generally have greater access to management than public company users. We also agree that some consideration should be given to management access in the framework. However, caution should be exercised when
relying on management access as a factor in making a financial reporting modification because of the underlying premise that the financial statements should be suitable for general purposes. Additionally, although users may be able to obtain the requested information from management, it likely will be without the added comfort from its inclusion in audited financial statements. Further, if information is not required to be disclosed, it may not be readily available upon request. For example, the fair value of certain assets may not be readily available if the entity is no longer required to measure and disclose the assets at fair value.

The *red-flag* approach is briefly described in an example in the basis for preliminary staff recommendations, but there is no description of the process the Board and Council will follow in determining the appropriate level of disclosure. Accordingly, we recommend that the framework clearly explain the *red-flag approach*, the underlying process, and the information that should be disclosed to make it effective.

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

The questions are divided into two groups — those pertaining to the relevance of information to users and those pertaining to the cost and complexity of providing the information. In general, we believe that the questions pertaining to relevance are helpful in determining what information is relevant to a private company user. In most cases, however, these questions may not identify the differences in relevance between public and private company users. As noted in the ITC, public company users often have broader needs than private company users. Questions focused on those additional needs would be helpful in determining which modifications are appropriate for private companies.

We recommend question (j) regarding the untimely issuance of financial statements be eliminated. Standards should be set under the premise that financial statements are issued on a timely basis. The fact that they may not be should not affect the accounting, reporting, and disclosure requirements of the standard. Relying on the premise that private company financial statements are not issued in a timely manner could have far-reaching, adverse consequences to the usefulness of financial statements to users of that information.

Additionally, it would be useful if the questions addressed the use of fair value measurements in more detail. Private companies have frequently raised concerns over relevance, complexity, and cost in complying with fair value accounting measurements.
and disclosures. We believe that the framework could be enhanced if it provided the Board and the Council with clearer direction in this important area.

The questions relating to cost-benefit considerations seem to be relevant to both private and public companies. Thus, they may not be very helpful in determining if differences in recognition and measurement should be provided for private companies. More useful questions may include consideration of the relative costs for private companies to adopt and follow guidance compared to public companies. However, due to the diverse attributes of different companies, we are not confident that such questions can be answered with much reliability.

We agree that when the Board and Council are considering modifications to recognition and measurement guidance, more weight should be placed on the questions relating to relevance of financial information than cost and complexity considerations.

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

The list of common areas of focus is comprehensive and largely consistent with the list of factors for determining the relevance of financial information when evaluating recognition and measurement differences. We believe that this information is relevant to public and private companies and, accordingly, sets a baseline of disclosure requirements. Similar to our response to Question 6, the framework could be enhanced in this area if it included questions targeted at the unique needs of public company users that are not relevant to typical private company users.

General purpose financial statements are designed to fulfil the needs of a broad set of users. The framework provides that the Board and Council should consider a modification when input from users indicates that a disclosure only has relevance to a narrow set of users. We agree that where disclosure information is determined to be relevant to a broad set of users, modifications should not be permitted. If the Board and Council are able to conclude that a disclosure is only relevant to a narrow set of users, then a disclosure modification should be considered. In making that determination, the Board and Council should be mindful of the cautions we described in our response to Question 5.

**Question 8:** Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?
We agree with the presumption that private and public companies should apply the same display guidance. Because of the highly summarized nature of information required for display purposes, we believe it is unlikely that information deemed by the Board to be relevant enough to be presented on the face of the financial statements by public companies would not also be relevant to users of financial statements of most private companies. Also, information displayed on the face of the financial statements is generally summarized from information that has already been created. Thus, the cost of preparing the information for display is relatively insignificant in relation to the costs of obtaining the information.

**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 amendments before the deferred effective date for private companies, but no earlier than the required or permitted date for public companies? If not, why?

Due to differing training cycles and human resource constraints, we agree that, generally, where the Board has provided a short transition period, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance. Where longer transition periods are applicable, a deferral for private companies may not be necessary. Additionally, private companies (when they provide interim information) should not be required to apply the guidance to interim periods in the year of adoption. We also agree that private companies should be permitted to adopt a new standard before the deferred effective date, but not before the effective date for public companies. This option will allow private companies to decide if user needs are better served by adopting the standard earlier than the deferred effective date. It may also reduce cost and complexity for private companies that are subsidiaries of public companies.

**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 that there may be circumstances where a different transition method may be appropriate for private companies. We are supportive of the Board and Council exploring practical expedients, limited or modified retrospective methods, or prospective methods of
transition, where a retrospective method is to be applied by public companies. We believe the Board and Council should have the flexibility to address the appropriate transition method for private companies on a case-by-case basis. The relevance and nature of the financial information impacted by the new accounting and the differentiating factors between public and private companies will provide the basis upon which the transition method should be determined.

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? If not, why?

Yes. However, we recommend there be consistency between the entities within the scope of the framework and the finalized U.S. GAAP definition of a private company. Once the definition of a private company is finalized, the Board may need to revisit the framework to ensure consistency is maintained.

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? If yes, please explain.

We believe that in general the tentative decisions on the definition of a private company are reasonable. However, there may be a few specific situations that require consideration.

For example, under the JOBS Act of 2012, emerging growth companies, as defined, are allowed to follow the transition guidance available to private companies in adopting new accounting standards. Based on the Board’s tentative decisions on the definition of a private company, emerging growth companies would not be considered "private" companies since they file financial statements with a regulatory agency for the purpose of issuing securities publicly. We understand the genesis of this difference. Nevertheless, to be consistent with the Act, clarity from the Board that the transition guidance available to private companies would apply to emerging growth companies may be helpful to avoid confusion.

Additionally, clarification would be useful for determining whether emerging growth companies that file confidentially with the SEC and companies that file voluntarily with the SEC are considered public. We believe they should be considered public. This could be clarified by revising the definition to include those that file, furnish, or “submit” financial
statements with or to a regulatory agency for the purpose of issuing securities in a public market or issuing securities that trade in a public market.

**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 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 do not believe that a private company that elects to apply a different recognition and measurement method should have to apply all existing and future differences. Our view is based on the fact that the Board did not intend to create separate U.S. GAAP for private companies. Requiring all recognition and measurement guidance to be adopted may, in effect, result in a separate set of U.S. GAAP for private companies.

Additionally, in most cases, the accounting for a transaction that is relevant to the users of public company financial statements will also be relevant to users of private company financial statements. Therefore, we believe that modifications to the recognition and measurement criteria for private companies should be rare and limited to instances where the public and private company financial statement users have clearly different information needs. Since recognition and measurement differences are expected to be rare, and will be accompanied by required accounting policy disclosures, users should not be confused if preparers adopt some modifications for private companies and not others. Thus, we believe that where the Board and Council have determined that an alternative recognition and measurement method is permissible, preparers should have the option to choose which method is most relevant on a case-by-case basis.

This approach would alleviate preparer concerns that they would be required to apply all future private company modifications. As the extent and breadth of future differences is currently unknown, some preparers are concerned that they will not be able to assess the total impact on relevancy of accepting an "all or nothing" approach in the first period in which a difference is made available. For this reason, some preparers may be reluctant to adopt the modification; therefore, modifications available to private companies may go underutilized. This would be unfortunate and counter to the Board's and Council's intent to address the needs of private companies.
If the Board and Council move forward with an "all or nothing" approach, guidance should be provided for situations when a company desires to change from one approach to the other, e.g., from “all” to “nothing.” Critical to providing this guidance is to address the question whether the "all or nothing" approach has created a separate set of U.S. GAAP for private companies.

If the Board determines that the approach does not create a separate set of U.S. GAAP for private companies, current accounting change guidance does not address situations when a company wishes to change its decision to adopt all or none of the modifications arising from the application of a decision framework for standard setting. Currently, accounting change guidance focuses on an individual accounting policy election and whether a change to a different method is preferable. As a result, new guidance would be necessary that focuses not on the preferability of any individual accounting treatment, but on the totality of the current and future expected outcomes of one approach over another and the relative merits of one approach over another.

If it is determined that an "all or nothing" approach establishes a separate set of U.S. GAAP for private companies, a change from one approach to another would not represent a change in accounting principle. Rather, it would represent a change in the basis of presentation, which companies are freely permitted to do today. The Board and Council should consider if the freedom to change would be in the best interests of users of private company financial statements.

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 that you describe in your response to Question 13 a).

Consistent with our response to a), we believe that private companies should have the option to elect any or all differences in disclosure, display, effective date, and transition method on a case-by-case basis. Historically, all companies have had the option of disclosing additional information that is considered relevant to their users if it doesn’t contradict other reported information. It would be contrary to this practice to require private companies to provide less disclosure under an "all or nothing" approach. Also, prohibiting a private company from following the more rigorous public company effective date and transition provisions under an "all or nothing" approach would not be in the best interests of its users.