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Technical Director
Financial Accounting Standards Board (FASB)
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RE: File Reference No. 2012-230
Private Company Decision-Making Framework

Dear Board Members,

Thank you for the opportunity to comment on the Private Company Decision-Making Framework ("Framework") and the tentative decisions reached on defining a nonpublic entity. As both a preparer and user of private company financial statements, we appreciate the efforts put forth to develop a systematic approach for navigating through the differential factors of private companies and the cost-benefit considerations of private company financial reporting, with the ultimate goal of identifying and addressing areas in accounting standards that can be simplified to meet our needs.

We are writing on behalf of Koch Industries, Inc. ("KII") and its subsidiaries ("Koch companies"), a portfolio of privately-held companies. Our major industries include refining, chemicals and biofuels; process and pollution control equipment and technologies; minerals; fertilizers; polymers and fibers; commodity trading and services; forest and consumer products; and ranching. Koch companies have a presence in nearly 60 countries and employ approximately 60,000 people worldwide.

First and foremost, we support the combined efforts of the Board and Private Company Council ("Council") in addressing the needs of the preparers, auditors, and users of private company financial reporting. We agree that substantive differences should not exist in recognition and measurement based solely on whether a company is privately or publicly held. We further appreciate that the users of financial reports need quality information irrespective of whether they read a public or private company’s financial
statements. We believe and agree with the Board that private company financial statement users, preparers, and auditors have differentiated needs from those of public company stakeholders. Not only is it important to identify the existence of these differences, but we feel standard setters should actively seek ways to address these differences in a cost-effective manner. However, we do believe in all cases that the interests of private company stakeholders, from the very small to the very large, could be enhanced by developing a framework that both promotes and facilitates discussion between the Board and the Council when analyzing accounting standards and their applicability to private company financial reporting.

We agree the staff has thoughtfully identified the differential factors between private and public companies and has attempted to design the Framework in a comprehensive manner. However, we feel the approach could be simplified by virtue of refocusing the efforts on what differential factors are most important to address, such as relevance to users, access to management, and quality of information instead of providing separate considerations for each of the five different areas identified in the discussion paper. An appropriate framework should simplify our thinking and decision making without inadvertently blinding us to important issues or leading us to overlook new or better alternatives.

In this vein, we firmly believe that the Board and Council should develop a framework that identifies and evaluates opportunities to modify accounting standards in ways that afford private companies, along with their auditors, with the ability to apply professional judgment in the preparation, presentation, and audit of financial statements that:

1. Are relevant for the users for whom it was prepared;
2. Reflect the economic reality and transparency of the entity reported, simply but not more so than is necessary; and
3. Based on professional judgment, disclose quality information.

We noted a few areas in the Framework that need further consideration and deliberation:

1. Reconsider whether the Board needs to define a private company or if it would be more beneficial instead to describe what a public company is.
2. Quality reporting exists when professional judgment and a principled approach is combined with direct insight, knowledge, and experience with the users of the financial statements.
3. The relationship and the access between the financial statement user and private company management are crucial, and it goes well beyond a mitigating control.
4. Resource availability and constraints should not be a dominating factor in the decision-making process.
5. Industry specific guidance should not be excluded from the Framework as the Board is drawing a pre-determined conclusion that all industry specific guidance is valuable to private companies.
6. Ensure disclosures are covered in a singular framework such as addressed in the Board’s discussion paper on the Disclosure Framework to ensure no duplication or repetition.
DEFINITION OF A NONPUBLIC ENTITY

Concerning the private company definition to be included within accounting standards, we carefully reviewed the tentative decisions reached to date, and we are concerned that additional unnecessary levels of complexity are being imposed. We feel that it would be adequate if FASB simply defines a public company as one that registers with and is subject to the periodic filing requirements of the Securities and Exchange Commission and therefore, provides financial statements to stakeholders through a public market. All other companies should be considered private and therefore should apply professional judgment in determining and assessing the applicability of private company exemptions and exceptions provided by the Council and the Board. One size does not fit all and the preparer has the knowledge, expertise, and interactions with users that form the basis of their professional judgment. FASB and the Council will not be able to conceive, plan for, and develop rules applicable to every circumstance without adding to the level of complexity.

In addition, US GAAP previously defined what a private entity is and outlined special rules, in specific instances, to improve the relevance of the financial statements to the users, such as conduit bond obligors. We do not believe that the Framework should exclude companies entirely from the definition solely because they engage in specific transactions or hold certain obligations or assets. There are economic and social impacts that need further consideration, especially concerning the conduit bond obligor, and more specifically Industrial Revenue Bonds. A broad brush treatment of the entire entity as non-private, due to potentially immaterial Industrial Revenue Bonds is not appropriate. Industrial Revenue Bonds are frequently desired by many companies because the company receives a lower interest rate. This accounting change could have unintended economic consequences that affect the market by determining how a business accesses capital and interacts in their local markets. In addition, these Bonds can be purchased and exchanged only by and between Qualified Institutional Investors and Sophisticated Investors who have the right to obtain additional financial information. We do not believe that Conduit Bond Obligors should be excluded from the definition of the private company solely by virtue of having such obligation in their balance sheet and bear the increased financial reporting costs to comply with US GAAP as a public company.

QUALITY AND RELEVANCE TO USERS

In general, it is our view that no two companies are alike. Retrofitting business complexities into one-size-fits-all, rule-based standards promotes boiler plate display and disclosures over time, and adds unnecessary complexity and cost that erodes the quality of information. The ability to apply professional judgment in private company financial statement preparation is crucial to achieving transparent quality information for its users.

Thus, we feel quality and transparency should be considered of greater importance than consistency to ensure economic reality is reflected in the financial statements, and that disclosures are relevant to the users of the financial statements. While consistency of financial reporting is an important factor, it should not be used to produce irrelevant
information or prevent reporting information that is deemed useful by users of the financial statements. A framework, designed around the differential factors, should focus on quality financial information that when combined with professional judgment will be relevant to the user. We also agree relevance to users is fundamental to the decision making process; however, the needs of and relevance to users should take precedence over consistency.

**RELATIONSHIP & ACCESS TO MANAGEMENT**

In our experience, we have found that our relationships with our stakeholders and their access to management are of far greater importance to our financial statement users than as depicted in the Framework. Access to management should be considered the primary differentiating factor between public and private companies in the Framework, and not solely as a mitigating factor, as presented in the Framework.

Unlike public company investors, private company investors make longer-term investment decisions, and frequently have the ability to access and build relationships with management. Market users in the public domain require extensive disclosures because they do not have access to or a relationship with management. Investors of public companies expect to incur higher compliance costs, ensuring greater insight and assurance. However, in private companies, financial statement users have different information needs and the financial statements are secondary source information used to validate previous knowledge and to engage directly with management.

As a preparer of private company financial statements, we agree with the red flag approach as described in the Framework background. Our rating agencies, banks, and shareholders seek additional information as necessary directly from management, in order to understand economic impact and future cash flows. That experience and knowledge allows private company management, such as KII, to have insight and visibility into what data will provide transparent meaningful information to their financial statement users. Koch Companies prepare management financial information that goes beyond US GAAP requirements in order to provide a greater understanding of the economic reality of the business, implications to cash, cash flows, and cost of capital. In fact, we would purposely take a qualified audit opinion when the application of GAAP would not present economic reality or transparency into our business and, likewise, we provide disclosures not required by GAAP if we felt they were useful to the readers of our financial statements. In a collaborative fashion, the users and Company management are in the best position to determine what information will provide the greatest value to financial statement users without unnecessary complexity and cost.

As an investor and user of private company financial statements, economic reality and transparency are key considerations and should provide the basis for financial statement presentation. Having invested approximately $50 billion in acquisitions and capital expenditures since 2003, and based on our experience from those mergers and acquisitions of both public and private companies, management access and supplemental information have proven to be the greatest sources of information in our decision-making process. The U.S. GAAP financial statements are used as secondary source information,
or a small step in our decision-making process, to validate and corroborate preliminary views and decisions about a company, especially in the acquisition of private companies. We have found the US GAAP financial statements were of greater value in the acquisition of public companies because of the more restricted access to management and other information.

RESOURCE AVAILABILITY & CONSTRAINTS

Resource availability and constraints should not be considered as a primary factor in the Framework except for considerations around transition method and timing, because the inability or lack of desire to dedicate time and resources necessary should not play a significant role in the decision-making process. All companies, whether public or private, small or large, have resource constraints and limitations for a variety of reasons. It should be noted, however, that refocusing efforts on the differentiating factors in a framework that allows for professional judgment by private companies would reduce waste and ease resource constraints.

INDUSTRY SPECIFIC GUIDANCE

Industry specific guidance may not be beneficial in the same manner to users of both private and public companies. We think that the staff rightfully identified that the capital and ownership structures of private companies differ from that of public companies, and therefore use financial information differently. This principle should be applied to industry specific requirements as well, because the ability to apply professional judgment in private company financial statement preparation is crucial to achieving quality information meaningful to its users. The industry specific guidance could be beneficial to the user and utilized to provide quality information; however, the preparer with the agreement of the company’s auditor should decide what information is truly relevant. We feel the preparers should exercise professional judgment when deciding whether to apply the exception/exemption allotted to private companies.

DISCLOSURE FRAMEWORK

An invitation to comment also exists for the discussion paper on the Disclosure Framework, and we believe private company disclosure guidance should be contained in only one of the Frameworks and not both. Duplication created by parallel frameworks will complicate an already complex process, thus we recommend that one of the Frameworks remains silent on private company disclosures. Our overriding point of view is that the company with agreement of its auditors is in the best position to determine which disclosures provided the greatest insight into the economic position of the Company. In addition, we noted this project was initiated to reduce cost and complexity for users, preparers, and auditors; yet the Framework proposes many new disclosures. That said we want to reiterate our belief that the users of financial statements of private companies do have different disclosure needs than those of public companies, and those needs should drive the level of disclosures as well.

We feel this concept also applies to display guidance. Private companies should be allowed to apply display guidance that differs from public companies if they can enhance the readability of the financial report to matters that are more relevant to private company
financial statement users. Professional judgment combined with relevance to the user should govern display decisions.

In summary, the Board should consider improvements to the Framework as described above and retain its focus on relevance to users and easing complexity, while increasing the focus on the use of professional judgment. If investors, rating agencies, creditors, and other users of the private company financial statements are not receiving enough information, the preparers of private company financial statements are in the best position to determine what additional information is needed. In addition, we feel the Board should simplify its decisions around the private company definition and keep the framework simple and principled.

We hope you will seriously consider our expressed concerns and suggestions as well as others received in this process. We look forward to an improved financial reporting structure for private companies that provides greater transparency to investors and other financial statement users, based on sound accounting principles that can be cost effectively applied.

We welcome the opportunity to sit down and discuss these issues in more detail. If you would like to discuss further, I can be contacted directly at 316-828-5500.

Kind regards,

Richard K. Dinkel
Corporate Controller and Chief Accounting Officer
Koch Industries, Inc.