November 9, 2012

Susan M. Cosper, CPA
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FASB
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Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC is comprised of 13 practitioners from CPA firms of varying sizes ranging from less than 10 professionals to more than 1,000 professionals. All member firms focus on audits of nonpublic entities; some firms also audit public companies or public employee benefit plans.

TIC appreciated the opportunity to discuss its comments on this ITC with the Board and staff at the FASB/TIC Liaison Meeting on September 25, 2012. TIC has re-examined the ITC and is providing the following comments for your consideration.

GENERAL COMMENTS

Overall, TIC supports the staff’s recommendations in this ITC. TIC appreciates the work performed by the FASB staff and Resource Group to research and deliberate the issues. TIC believes the ITC represents a solid preliminary process for formulating appropriate GAAP exceptions and modifications for private companies. The document is comprehensive and well written. The flowcharts provided within most of the sections are very helpful. Suggested amendments and clarifications to the ITC are provided below for the Board’s consideration.
SPECIFIC COMMENTS

TIC’s responses to the questions for respondents are as follows:

**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, TIC believes the staff has identified the appropriate differential factors between private companies and public 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 more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?

Yes, TIC believes the staff recommendations do mostly result in a framework that would lead to decisions that adequately address concerns about the costs and benefits that impact private companies. See TIC’s responses to Questions 5, 6, 9 and 10 for specific recommendations for improvement.

**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, TIC agrees that industry-specific accounting standards should be followed consistently by both private and public companies in the same industry to ensure full comparability and transparency for the users of these financial statements. It also discourages companies that operate in certain industries from designing or choreographing their capital and ownership structure solely for the optionality of accounting implications.

**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?

Generally yes, the various sections of the framework appropriately describe and consider the primary information needs of users and the ability of those users to access management. The red-flag approach, as described, aims to prompt users to ask appropriate follow-up questions based on so-called “basic information” included in the
notes. However, TIC believes the term “basic information” can mean different things to different preparers/users.

To address this issue, TIC recommends replacing the term “basic information” with the term “minimum disclosure requirements” from the Disclosure Framework ITC. The example in paragraph 3.19 of the Disclosure Framework ITC implies that “minimum disclosure requirements” could be described as the disclosures that are basic to understanding the overall effect of a significant transaction or event on the financial statements. This term would certainly meet the criteria for the red-flag approach, which are to facilitate a user’s review and to allow a user to identify appropriate follow-up questions to present to management.

TIC also believes the term is more readily understandable than “basic information” and would improve the linkage between the Disclosure Framework ITC and the Private Company Decision-Making Framework ITC.

**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?

Although TIC agrees with all of the questions listed in paragraphs 1.5 and 1.6, an additional element should be considered. TIC noted that the framework emphasizes cash flows, liquidity and leverage considerations to the exclusion of revenue. TIC recommends that transactions or events that have a significant effect on revenue be added to the question in paragraph 1.5 since this element is important in evaluating the relevance of recognition and measurement guidance for users of private company financial statements.

TIC also identified a point that should be clarified in the recognition and measurement section. The ITC states that if the information provided by an existing or proposed standard is not relevant, the Board and the PCC would proceed to analyzing the benefits and costs of potential alternative recognition or measurement methods, including exceptions or modifications to guidance (paragraph 1.3). As written, this paragraph implies that performing a cost/benefit analysis of alternative recognition and measurement methods is a pre-condition to permitting exceptions/modifications for private companies when the Board and the PCC determine that existing or proposed guidance is irrelevant. TIC believes this was not the FASB staff’s intent.

TIC recommends that paragraph 1.3 be revised to clarify that irrelevant guidance in a proposed or existing standard for users of private company financial statements would lead directly to appropriate exceptions or modifications. There is no need to assess whether the irrelevant guidance would be costly to apply.

TIC believes the staff’s intent was unclear because paragraph 1.3 attempts to address two staff recommendations in one sentence. TIC’s recommended language below illustrates separating the recommendations into two separate sentences. However, the staff may
wish to consider separating the recommendations into two separate paragraphs—one for irrelevant guidance and another for relevant guidance that is too costly to apply. Separating the recommendations would also serve to emphasize the importance of irrelevant guidance as a primary factor in the consideration of exceptions and modifications.

*If the Board and the PCC determine that the information provided by the guidance is not relevant, appropriate exceptions or modifications to the recognition and measurement methods should be established. If, however, the information provided by the guidance is relevant but overly costly or complex to provide and no practical expedient is available, they should proceed to analyzing the benefits and costs of potential alternative recognition or measurement methods including exceptions or modifications to guidance.*

TIC noted that a process flowchart was not included in the ITC for recognition and measurement guidance. The omission of the flowchart was notable since flowcharts have been provided for all of the other types of guidance addressed in the ITC. TIC believes this would be a valuable tool for the Board and the PCC to use as they evaluate proposed and existing guidance and recommends that a recognition and measurement flowchart be included as part of a future exposure draft.

*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?*

Generally, yes. The appropriate areas of disclosure focus have been identified.

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

Yes, TIC agrees that the look and feel of the basic financial statements of a private company should be the same as those for a public company.

*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?*

Yes, TIC believes, as a general rule, private companies should have a one-year deferral beyond the date required for public companies and that it should be an optional deferral period. Many private companies find more effort is required than public companies to dedicate the time and resources necessary to evaluate and implement new guidance. Also, many private companies and their public accountants learn and implement best practices developed in the earlier implementation experiences of public companies.
However, if a private company chooses to early-adopt new guidance, TIC believes disclosure of that fact should be required.

**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?

TIC agrees that some circumstances may warrant consideration of different transition methods for private companies. TIC also agrees that if amendments do not affect areas of focus by private company investors and lenders, then the benefits of neither a full nor a modified or limited retrospective transition method are likely to warrant the related transition costs. TIC believes the staff has identified the more important considerations for the Board and PCC to evaluate.

However, TIC suggests the staff recommendations for consideration of different transition methods for private companies should be expanded in paragraph 5.6 and Step 2 [left side] of the process flowchart in paragraph 5.7 to include the following:

- **The structure of a private company.** A large number of private companies are pass-through entities, which means that retrospectively applying new guidance would impact the ownership interests in addition to the entity itself. While paragraph 5.6(a) includes a consideration for “the limited distribution of private company financial statements,” TIC believes paragraph 5.6 and the related flowchart should include an additional consideration relating to the “ownership and structure of the entity” as part of the analysis of the benefits and costs of permitting alternative transition methods. This change would thereby link the discussion in paragraph DF8 on differences in capital structure between public and private companies, including pass-through entities, to the need to consider differences in transition.

- **Entities under common control.** Paragraph DF8 also acknowledges that many private companies have multiple entities under common ownership which often have guarantees and cross-collateral arrangements with lenders. Retrospectively applying new guidance for one entity may impact the financial statements of all entities under common ownership. Paragraph 5.6(b) “the typical manner in which private company financial statements are used” does not fully encompass the concept of ownership of a private company and its related parties. TIC therefore recommends that paragraph 5.6 and the related flowchart also include an additional consideration relating to the number of related entities that would be affected by the transition guidance. This change would also have the effect of linking the discussion in paragraph DF8 with the need to consider differences in transition.

Finally, TIC agrees that the prospective method of transition is expected to be the least cumbersome to implement for private companies. If the prospective method is different than what is ultimately required for private companies in an accounting standard, then
the accounting guidance should specifically address why the prospective method was not chosen. This guidance would help private companies and their public accountants understand why a retrospective transition method is deemed necessary and, to maximize clarity, should include a discussion of the specific benefits to financial statement users which would outweigh the costs of the retrospective method. This explanation could be provided as part of the Basis for Conclusions in the final Accounting Standards Update in question.

**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?

TIC supports most of the tentative decisions reached as to the definition of nonpublic business entities in paragraph B6. However, TIC does not agree that employee benefit plans should be considered in the same light as a public entity, as implied in paragraph B6c. TIC understands some of the reasons for not considering them private entities (as discussed in paragraphs B11 and B12) and realizes that they include a public interest factor that is not present in most private business entities. However, although they may involve more public accountability than a manufacturing entity, for example, it is also true that they do not have the same characteristics as an SEC registrant. TIC believes that certain non-industry-specific exceptions/modifications for recognition, measurement, disclosure, deferred effective dates and differential transition methods and timeframes may be relevant and necessary for employee benefit plans. In this way, they bear some similarities to many not-for-profit entities.

TIC therefore recommends that employee benefit plans be scoped out of the ITC in the same manner as not-for-profit entities. Both types of entities deserve separate consideration due to their unique characteristics; no tentative decisions should be included in this framework as to the public/private status of either type of entity.

**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.

No. However, as cited in paragraph B14 (Appendix B) the inclusion of financial institutions in the proposed definition of a private company differs from the conclusions reached by the International Accounting Standards Board (IASB) in its *International Financial Reporting Standard for Small and Medium-Sized Entities* (IFRS for SMEs). TIC encourages the FASB to work with the IASB to resolve differences between the two boards on the inclusion of financial institutions as private companies and the definition of public accountability. Since the IFRS for SMEs standard is currently undergoing its first comprehensive review, this is an ideal opportunity to address these issues.

**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.

Some users of private company financial statements stated that they prefer an all or nothing
approach of applying recognition and measurement differences to achieve consistency
within a private company’s financial statements and promote comparability among the
financial statements of private companies that choose to apply all exceptions and
modifications provided under the framework....

Most preparers of private company financial statements acknowledged the concerns of
some users, but stated that preparers should be allowed an option to select the differences
provided under the framework that they wish to apply....

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.

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).

TIC believes 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. TIC believes optionality in applying differences
in recognition and measurement guidance will add complexity and confusion for both
preparers and users of financial statements and could encourage preparers to pick and
choose exceptions or modifications to achieve the best financial outcome.

However, in all other sections (display, disclosure, transition and effective date) of the
framework, TIC believes that a private company should have an option to choose on a
case-by-case basis which modifications and exceptions would be appropriate to apply.
Currently, such optionality exists in current GAAP. In addition, any optionality granted for
the above areas would not likely cause differences in reported amounts for private
companies in the main financial statements.

TIC also suggests that the framework address disclosures and transition guidance needed
when switching between private and public company frameworks. Such guidance would
include when this would be deemed appropriate, as well as transition guidance.
TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees