June 5, 2013

Ms. Susan M. Cosper, CPA
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Private Company Decision Making Framework

Dear Ms. Cosper:

We appreciate the opportunity to offer comments on the above referenced Framework. The efforts of the FASB Private Company Council (“PCC”) are of significant importance to the preparers, users and auditors of private company financial statements. This Framework which seeks to provide the Financial Accounting Standards Board (“Board”) and the PCC with an intellectual approach to decision making will be invaluable and we believe lead to thoughtful and rigorous decisions; decisions grounded in a theoretical framework. The comments we offer are done in the spirit of assisting the Boards in arriving at the best possible final Framework.

First, some context for our comments, ParenteBeard LLC is a large regional accounting firm headquartered in Philadelphia, Pennsylvania, with operations throughout the Mid-Atlantic Region. We are currently ranked in the top 25 of U.S. accounting firms, with approximately 1,000 team members including approximately 120 partners. Our practice is diverse; we have large concentrations in health care, higher education, manufacturing and distribution and construction. Our practice is primarily privately owned businesses and not for profit organizations, but we do have a public company practice and are a PCAOB triennially inspected firm.

In general we support the overall approach within the Framework. Our comments are limited to responses to the Board’s questions.

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

ParenteBeard is a public accounting firm focused primarily on private companies, with a modest public company practice. We are a top 25 firm with about 1,000 employees.

**Question 2:** Do you agree that this guide is based on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If 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.

We agree with the differential factors as stated, however, we believe the factors I-IV directly relate to differentials in the standards themselves, the final two are more related to transition issues. It seems that this is mixing apples and oranges a bit. Moreover, the Board has for the past several years adopted an informal policy permitting a deferred implementation date for private entities on most new standards. It seems that by grouping factors with mixed attributes, the overall usefulness of the Framework may be diluted.
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**Question 3:** Overall, do you agree that this guide would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If it does not, what improvements can be made to achieve those objectives?

This proposed Framework, which includes the decision trees, should enable a thoughtful filtering process for the PCC and the Board, which should lead to better, more decision useful information for the users of private company financial statements. We also believe that the process that the PCC will go through in agenda setting, informed by this Framework, may in fact lead to re-thinking of certain standards that can lead to improvements in financial reporting for all entities, not just private companies.

**Question 4:** With respect to industry-specific guidance:

a. Do you agree that this guide appropriately considers industry-specific accounting guidance for private companies? That is, should private companies follow the same industry-specific guidance that public companies are required to follow in instances in which the Board and the PCC determine that the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?

We believe that private companies should generally follow the industry guidance, certainly as it applies in specialized industries such as banking and construction.

b. Do you think factors other than user relevance, such as cost and complexity, should be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance?

We believe that differential industry guidance should be exceedingly rare in practice. There is too great a body of practices developed in these industries, which would be potentially disrupted by permitting differences for private entities. Moreover, the education process for the users would be much more difficult. We would expect that users of industry specific financial statements would have had less need for adjustments prior to analysis.

c. Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?

See response to b. Differences in recognition and measurement would rarely if ever be desirable. Perhaps there are circumstances where some reductions in disclosure might be possible.

**Question 5:** Do the different sections of this guide 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 section appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BC45 and BC46)? If not, why?
We agree with the concept that the red-flag approach is appropriately described, but the need for differences here must be carefully considered. For example, with respect to contingencies, we would not advocate changes in recognition or measurement criteria for FAS 5 disclosures. Boilerplate language stating that entity is subject to lawsuits in the ordinary course of business would not be appropriate. Moreover, in many cases, especially with smaller entities, the contact with the lenders may be only once a year. As such, it is quite possible that the lender is learning about the litigation for the first time, through the footnotes. There are numerous similar examples. As such, the red-flag approach can be useful to replace expanded disclosure, but not as a replacement for necessary disclosure.

**Question 6:** Paragraph 1.5 includes the following questions for the Board and the PCC to consider in the recognition and measurement area of the guide:

1.5(e) Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?

This definitely should be a consideration. The preparer can start with this threshold, and then if circumstances change, apply the FAS 5 criteria, to make a decision as to recognition and measurement. A good example would be accounting for plain vanilla swaps. If the instrument is used to create a synthetic fixed rate debt, then there is little value in measuring the fair value of the swap and running the changes through OCI until the debt is repaid. However, if a change in strategy has occurred wherein it is probable that the entity will prepay the debt and suffer a swap termination charge, then that liability should be recognized.

1.5(h) Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?

Yes most users can get the information, but here again disclosure is necessary for those transactions, wherein recognition may not be necessary. The above example works here as well. While marking the swap is not meaningful, disclosing that a swap exists that could result in future use of cash in certain circumstances would be beneficial for users.

1.5(i) Is the lag between the year-end reporting date and the date financial statements are issued and made available to users likely to significantly dilute the relevance of the information resulting from the guidance?

This item seems to have much less use than the other questions. The concept that the financial reporting standards somehow delay issuance of financial statements does not appear to be supported by empirical evidence. Most of the non-public entities, both private and not for profit, have filing deadlines of some sort, either with lenders, regulators, or boards. All of them meet those deadlines regardless of the accounting standards. We do not believe it is a necessary filter and cannot understand how the Board would actually apply it in practice.

_Do you believe that the questions listed above are necessary for considering alternatives for private companies within recognition and measurement guidance? Or are the other questions in paragraph 1.5 sufficient for considering when alternative recognition and measurement guidance is appropriate for private companies within U.S. GAAP?_
The first one is very useful, the second less so, and the third has little if any usefulness.

**Question 7**: Do you agree that a private company generally should be eligible to select the alternatives within recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement? Do you agree that, in certain circumstances, the Board and the PCC may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? If not, why?

We somewhat reluctantly agree with this concept, if in fact differential GAAP for private companies is viewed as an accounting policy election on an account by account basis. As such, we would think that disclosing the accounting policy would be sufficient for the users. We do not however agree with the concept that if the preparer decides to use some, but not all, of the differential GAAP there needs to be some sort of prominent separate disclosure stating that fact. It seems that this would be confusing for the users.

What is the difference between stating that the entity has elected straight line depreciation or has elected fair value measurement for an interest rate swap? We currently do not state that the entity could have elected declining balance depreciation, why would we need to say that as a private company it could have elected, not to recognize the swap. In other words we do not spell out all of the alternatives, if any, to the accounting policies and entity has chosen. We should not change that precedent with private company standards.

In conclusion, we congratulate the Board and Staff on the efforts that have gone into developing this proposed private company standard setting framework and welcome its inclusion in the due process for private company standard setting.

Sincerely yours,

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