**MINUTES**

Financial Accounting Standards Board

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| **To:** | Board Members |
| **From:** | Raichilson (ext.443), Mechanick (ext. 301), Glotzer (ext.212) |
| **Subject:** | Minutes of the October 12, 2010 Private Company Reporting Issues Roundtable |
| **Date:** | November 23, 2010 |
| **cc:** | Mechanick, Bielstein, Chookaszian, Posta, Klimek, Gabriel, Lott, Donoghue, Glotzer, Farber, Catalano |

Topic: Public Company Reporting Issues

Basis for Discussion: Agenda (Attachment A), Topics of Interest

Length of Discussion: 1:00 p.m. to 4:00 p.m.

Attendance:

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| Board members present: | Linsmeier, Smith, Siegel, Seidman, Golden |
| Board members absent: | None |
| Staff in charge of topic: | Mechanick, Glotzer |
| Other staff at Board table: | Farber, Catalano |
| Outside participants: | See Participant Listing (Attachment B) |

Summary of Decisions Reached

The FASB held this public roundtable discussion with constituents to discuss financial reporting issues pertaining to private companies. Participants and members of the Board discussed their views. No decisions were reached.

Objective of the Meeting

The objective of this meeting was to provide information to assist the Board in better understanding the general concerns of private company constituents, and to contribute to the Board framework for developing future standards.

Matters Discussed

**ISSUE 1: DEFINITION OF THE PRIMARY USER OF PRIVATE COMPANY FINANCIAL STATEMENTS**

1. Mr. Golden began the discussion by stating that the purpose of the roundtable is to improve each staff member's and Board member's thought process to include private company concerns going forward with standard setting, to figure out why user and investor needs from private company financial statements are different, and why costs are different.
2. Mr. Golden clarified what he meant by "private company investors" by stating that in his view, a private company investor is anyone who provides capital to a private company, whether that be through equity, debt, or an employee obtaining equity as compensation. He clarified that venture capitalism is a form of equity. He also mentioned that financial statements are used to make guarantees, and to measure the risks of guarantees already written. Mr. Lomax supported Mr. Golden's view. He stated that most guarantees are non-cancellable; they are mostly all contract-bond obligations. He stated that projects may run for multiple years, and after exiting from an account, a surety will still be required to underwrite and receive financial statements on that entity.
3. Mr. Linsmeier expanded upon Mr. Golden's opening remarks and on the objective of this roundtable. He stated that although specific issues will be talked about, the key interest is developing a framework for considering the differential needs and costs of private companies and their financial statement users, and to be able to make wise decisions as to when there should be differences for private companies and when there should not.

4. Ms. Seidman asked if everyone agrees with the definition of private company users as people providing capital, providing financing, and employees compensated with stock ownership. She mentioned that it is important to note that the owner of the company is not on that list. Mr. Golden responded by mentioning there are many different kinds of investors, and an owner is someone who provides equity. He acknowledged there is a wide range of investors. Mr. Linsmeier connected this discussion with FASB Statement of Financial Accounting Concepts No. 8, and noted that an owner would be a user, but this would not qualify as a "primary user" under Concepts Statement No. 8. He noted that while owners do provide equity, they have access to specific information that others do not have access to. He mentioned that a primary user is someone who cannot have access to information on a very direct basis. Mr. Smith noted that the FASB is only setting GAAP for general-purpose financial statements. He noted that sole proprietors and individual owners have access to information well beyond the typical user of general-purpose financial statements.

5. Mr. Siegel mentioned that his experience with private companies has been primarily with director and officer liability insurers, and they must analyze financial statements to understand the business before they insure. He noted that he would not think of them as a primary user, but does not want to discount the importance of people who use financial statements to determine whom they do business..

6. Mr. Beckwith noted that virtually all private company equity owners and creditors have better access to inside information than they would from a public company. As a private company, however, he also provided capital to thousands of other companies in the form of accounts receivable. He noted that his company could call those customers and ask for details, including information on collateral, trends, how business is going, who is in charge, etc. He included internal employees as users because they use financial statements to determine whom to extend credit to in the form of receivables, which are often thousands of customers. He also noted that private company investors are not considered transient investors, and therefore, they are not as concerned about exit values as are users of public company statements.

7. Ms. Seidman clarified that when developing standards, it is easier to focus on primary users who do not have unlimited access to information. Mr. Beckwith noted that in order to receive his company's financial statements, users must sign a non-disclosure agreement. Therefore, it is possible that they do not have any primary users. He noted that everyone has access to information and can talk with them, and it may be possible that there are no primary users because there are people who are not receiving any information.

8. Mr. Santarelli cautioned on the limitation of information. He stated the example of the Board of Directors for a not-for-profit organization having access to financial information, but not knowing the correct questions to ask management. He noted that they need the financial framework provided by general-purpose financial statements in order to generate questions that are more appropriate. Mr. Mechanick noted that not-for-profit entities are typically different from private business enterprises in that there are many users, such as donors, who do not have access to information beyond the general-purpose financial statements. Ms. O'Dell agreed that they should probably exclude not-for-profit entities from this discussion for that reason.

9. Mr. Beckwith responded to Mr. Golden's question regarding the amount of access provided to users, and noted that the amount of access is at the private company's discretion. He stated that they may not allow someone who wants to do business with them to look at their financials, or they may limit the amount of access provided. It is not the company's obligation to provide financial information. He noted that if a vendor demands financial information, they could just go to a different vendor. Mr. Golden clarified "access" as being anything beyond the general-purpose financial statements. He stated his concern is not whether private companies have the right to prohibit others from accessing the financial statements. His concern is that once the financial statements are provided, how much additional access to information is subsequently provided. He stated that it is clear owners have additional access, but vendors do not.

10. Mr. Linsmeier stated that it seems like private companies may give others that access more often. He noted that the distinction between primary users and other

users is that primary users only have access to general-purpose financial statements, while other users have access to other financial information.

11. Mr. Golden asked Ms. Lawrence, after a creditor writes a loan, what type of access does the creditor have to general-purpose financial statements, and what access does the creditor have beyond that? Ms. Lawrence stated that within the loan contract, they require financials at certain intervals, but they always have the right to interview. Ms. Lawrence mentioned that she likes to see disclosures in financial statements that give her a hint of certain things to ask, but does not read the disclosures in too much detail. Ms. Lawrence mentioned that she has this right to inquiry for public companies as well.

12. Mr. Lomax noted the unique distinction within the insurance industry, whereby sureties must go through a third party, known as a producer or agent, for any involvement in the account. Mr. Lomax noted that their access to information is specified in the general indemnity agreement. Under a claim situation, the claims department has the right to review any books and records of the account. If the financials are not provided, they can cut off writing the bonds.

13. Mr. Linsmeier asked the participants if they believe the Board makes errors in equating users in private company environments to users in public company environments. He stated what he is looking for are users who start their inquiry by looking at financial statements, and have different levels of access from there. Mr. Beckwith stated that it appears the primary users of private company financial statements are mostly vendors. He stated the main difference between vendors and users of public company statements is that the latter are a very large and diverse group, who are transient in their investment objectives. He stated that their idea of relevance is different. Mr. Santarelli noted that for users of public company statements, financial statements might be the only source of information. He noted that there is a continuum of information that may be obtained, which is directly correlated with risk. He stated it is common for a vendor to ask for financial statements, and all they will be provided with is a balance sheet because their involvement is considered low risk. For public companies, the information is the same regardless of the risk. Mr. Linsmeier did not completely agree, and stated there is plenty of information produced by sell-

side analysts for public companies available to the public. Mr. Campbell challenged the notion that public investors start with financial statements. He stated many investors start with what they know and hear, and corroborate or further their analysis through financial statements.

14. Mr. Solari asserted that a quality set of financial statements is the bedrock of a private company and, if they are of high quality, it is usually all the user will need for informational purposes.

15. Ms. O'Dell stated that a private company business starts out with close relationships and the ability to provide collateral. In addition, one's character is the starting point when asking for a loan. She noted that financial statements are for corroboration, and banks usually take personal guarantees of the owner. Ms. Lawrence agreed, and stated they will take personal guarantees on anything that is not a publicly traded company, even very large loans.

16. Mr. Golden cited Mr. Campbell's statements, and stated that a public company investor is more focused on the value, where a private company user is focused on credit. He asked which of the three statements they should focus on and how this should be incorporated within standard setting. Mr. Campbell stated that the cash flows are #1, income statement is #2 and the balance sheet is #3. Mr. Smith asked if Mr. Campbell is interested in future cash flows. Mr. Campbell responded that he did not discount any of the other statements, but when looking at vendors, he looks at cash flows first. Mr. Siegel stated that he is not surprised to hear that answer and that it is consistent with the objective of financial reporting, which is to help analyze the uncertainty of future cash flows.

17. Mr. Santarelli stated that the balance sheet gets the greatest adjustments, and there is little emphasis on leverage ratios. He stated that people focus on cash flows more. Ms. Lawrence agreed, stating that they do not look at the balance sheet except for leverage, and a strong balance sheet does not preclude weak cash flows. She stated that the income statement is used to create a more direct version of the cash flow, and what she really wants to know is where money is coming from, where it is going out, and who has claims to it.

18. Mr. Lomax was interested in the ultimate loss paying power. He stated that sureties do not usually write bonds on companies with three consecutive loss-

making years, and their major indicator is work-in-progress. He stated that ultimate loss paying power is displayed in the balance sheet, but may also be taken in combination with personal guarantees.

19. Mr. Beckwith stated that all three financial statements seem to work well together for him, and that he does not agree with the concept that if one statement is more accurate, the other is less accurate. He stated that for cash flows, the banks are creating a direct version of a cash flow in five minutes and are not going into detail. The cost of going from the bank version of direct cash flow to the 100% direct cash flow is very high, with questionable benefits. Ms. Lawrence agreed, and stated that is why Key Corp. does not require a direct cash flow statement from their borrowers; instead, they use a construed direct cash flow and accept the slightly lower precision.

20. Mr. Siegel agreed that there is a continuum between risk and the access to information that is granted. He asked how the FASB could apply this concept to standard setting. He stated that he is thinking of a user that has a full set of financial statements but is trying to understand the essential elements of the business. The financial statements, on a standalone basis, must give the user enough information to ask the right questions, regardless of the user's level of access to information. Mr. Solari added that the goal of financial statements is to provide a clear picture of the business, and to limit the number of people that ask for additional information. Ms. Lawrence stated that the problem is the cost involved in preparing financial statements and whether the content in the financial statements is relevant. She cited the cost of valuing goodwill as an example of costs with minimal benefit, given the fact that many users remove goodwill from the balance sheet and exclude goodwill impairment charges.

21. Mr. Santarelli stated that this issue is a precision problem, and noted that public company financial statements have to be the most precise but there still must be a base level of precision that exists for smaller companies. Mr. Lomax stated that he may extend more credit to an account based on their financial health, and would ask for additional information in that situation, depending on the quality of the financial statements and whether they were compiled, reviewed or audited.

22. Ms. O’Dell stated that a reason for differences between private and public companies is because of capital structure, and that many transactions are entered into for tax, estate, and family purposes. Problems arise once you require them to follow the same accounting standards as public companies. Mr. Golden asked if Mr. Lomax excludes goodwill when analyzing accounts. Mr. Lomax responded that he does exclude goodwill, with some exception on the public company side.

23. Mr. Smith noted that so far, discussion of users has been on the credit side and not the equity side. He asked what information should be useful to those equity investors. Mr. Smith noted that for some high tech companies, financial statements are not as meaningful because there are so many intangible assets that are not included on the balance sheet. It is difficult to determine which intangible assets to address because of the wide range of users. He appreciated writing off goodwill from a creditor’s perspective, but noted that other intangibles require alternative treatments, which may be complicated from a private company’s perspective.

24. Ms. Lawrence noted that there are a number of companies she would make loans to that she would not invest in and vice versa. She stated that certain private companies are penalized for certain kinds of intangibles, and others are not recorded at all. She asked why some are treated differently than others. An argument could be made that there are intangible assets for core deposits because whenever you buy a bank, you pay for liabilities. There may be arguments for the recognition of many intangible assets.

25. Mr. Beckwith stated that there are things that are more relevant for private companies than for public ones. For vendors, any type of impairment is not important because cash flows are what matters. He stated that private company investors value what is reliable and objective, while public company investors place importance on exit value, which goes back to the fact that they are more transient than private investors. Mr. Linsmeier disagreed that all private and public companies contain certain characteristics. He stated that many of these issues are not exclusive to private companies and pertain to public companies as well. Mr. Golden agreed with Mr. Beckwith in that there are different kinds of investors for public and private companies.

26. Mr. Golden asked Ms. O'Dell how common it is that private company owners make decisions solely from general-purpose financial statements. Ms. O'Dell responded that it is very rare. She mentioned that this topic will be explored in more detail in the November 2, 2010 FASB Roundtable because there will be venture capitalists participating. She stated that owners manage based on ad-hoc reports that report key performance metrics. Financial statements are prepared once a month for the banks and rarely are looked at by the owners. Mr. Golden followed up by asking if this is the case for employee-owned companies where, for example, one primary owner owned 51% and the employees collectively owned the other 49% in small percentages. Mr. Santarelli responded that they generally would rely on general-purpose financials because it is easier than speaking with the CFO on every issue. Venture capitalists are skeptical about financial statements and want to dig deeper into the operations. He stated that current owners want to know what happened, while buyers of a company want to know what will happen.

27. Ms. Seidman stated that there must be a continuum for venture capitalists, where GAAP numbers are not important at the beginning, but become more important as the company is moving toward an IPO. Mr. Santarelli agreed. He stated that companies with some sort of exit strategy prepare GAAP financials because it is a value driver. However, it is difficult to write standards for closely-held companies where the owners enter into non-arms-length transactions. Ms. Lawrence mentioned that she provides funds to venture capital funds, and those that decide to take their companies public provide detailed GAAP statements that are among the best she has seen for private companies, because they know this is required.

28. Mr. Linsmeier reflected that he heard participants state that GAAP financials are not of primary importance at initial contribution of capital. He questioned how important GAAP financials are once a company decides to go public. Mr. Beckwith responded that there is a transition period where the company acts like a public company, but still provides relevant information for their private company users. He stated if a company is going to be sold, the two important metrics are EBITDA and the multiple, with the multiple being the more important. He stated that value is determined by external factors.

29. Mr. Santarelli noted the difference in information needs is really a size issue. GAAP financials are of less importance for smaller companies than they are for larger companies because of the differences in risk, with exceptions. Ms. O'Dell mentioned that private companies sometimes present financials with GAAP exceptions in the interim period of time for irrelevant standards, if the banks will accept them. Ms. Lawrence agreed, and added that the required information also depends on the loan size. Mr. Santarelli noted that while he sees exceptions in compilations or reviews, it is rare in an audit. A limited-use financial statement is more frequent.

30. Mr. Campbell mentioned that financial statements always have some amount of value, but that value changes over time.

**ISSUE 2: FIN 46(R)/STATEMENT NO. 167 PRIVATE COMPANY ISSUES**

31. Ms. O'Dell explained a typical FAS 167 private company fact pattern:
    - Joe has a manufacturing company and he needs a new building.
    - The manufacturing company is a C Corporation; therefore, if there is a gain on a building owned by the C Corp, it is taxed twice.
    - To avoid this, Joe forms a separate partnership that he owns to hold the building and lease it to the manufacturing company.
    - There may or may not be the same bank lending to both entities. Sometimes the bank holds a mortgage on the real estate and provides an equipment loan or line of credit.
    - The building is only used for manufacturing, and will be used as long as the company is in business.
    - There may be cross-guarantees.
    - The lease is not capitalized under current GAAP.
    - Sometimes the bank requires a formal lease, and sometimes there is no stated rent; whatever is left over from the C Corp is paid out as rent for tax purposes.

32. Mr. Smith questioned whether, in a situation involving two different banks, the lender for the building would accept the real estate entity taking excess returns

from the C Corp as rent. Ms. O'Dell insisted that a bank would be fine with this and, in many cases, the C Corp would provide cash sufficient to make the mortgage. Mr. Santarelli does not believe a separate bank would accept that situation. Ms. Lawrence noted that if the individual had a strong enough net worth, the bank would not mind. Mr. Smith replied that there would then be a guarantee. Mr. Santarelli noted that FIN 45 would scope the personal guarantee in from a disclosure perspective. Ms. O'Dell acknowledged that the circumstances are fully disclosed, but the situation can get messy.

33. Mr. Smith noted that it is messy because you question whether the individual should be the reporting entity. Ms. O'Dell added that an individual cannot be a reporting entity, and cannot be the primary beneficiary, and this is where the confusion comes into play. She also noted that CPE sessions across the country taught that you should always consolidate under these circumstances. She mentioned the proposed leases standard may require the lease to be capitalized, but FAS 167 may still require consolidation. This could end up in a messy consolidation because the lessee and lessor amounts may not eliminate properly.

34. Ms. O'Dell stated that people were comfortable with consolidation standards until FIN 46(R) was issued, which introduced many complications, such as the complicated wording and the lack of examples relevant to private companies. Mr. Santarelli stated that he believed FAS 167 would alleviate some private company concerns because they are getting a fresh look at VIEs, many of which may no longer be considered VIEs because they currently have sufficient capital. Under FIN 46(R), the analysis was to occur as if it were Day 1 rather than as of the balance sheet date. Also, some guarantees are no longer required because of the sufficient level of capital.

35. Mr. Golden stated that he believes the substance of this transaction is that the manufacturing entity purchased the building. He asked whether the lenders' views on cash flows, and the sureties' views on total value, would lead them to want consolidated financial statements. Ms. Lawrence responded by saying that she would rather see financials for both entities. She elaborated that a bank would want to make sure the company they lent money to is able to pay it back, and the fact that this ability is dependent on rent payments from the operating entity

makes both sets of financials of interest to the bank. She noted that either consolidating or separate financials are of value, as long as related party disclosures are adequate. A single consolidated statement obscures assets the creditor may have recourse to.

36. Mr. Lomax noted that he was the lone dissenting voice in the PCFRC view regarding FIN 46(R), and that the surety industry is a strong proponent of the standard. He added that a study to assign a monetary value to the losses that took place as a result of FIN 46(R) not being in place made it evident that the losses were significant. He cited two typical examples, one involving a separate equipment company and the other a joint venture. He noted that as long as he is provided with financial statements that can be rolled up at one particular point in time, he is able to perform a proper analysis.

37. Mr. Golden asked what is preventing the preparation of consolidating financial statements and Ms. O'Dell cited the higher audit costs involved due to lower materiality levels. Mr. Santarelli stated that if the lender asks for consolidating statements, they are provided. Mr. Farber pointed out that the separate presentation of certain assets and liabilities of a VIE are required under FAS 167, and that this may help alleviate some of these concerns. Mr. Beckwith responded by noting that if they prepared consolidating statements, the materiality level is calculated based on the numbers presented, which may lead to a relatively small entity requiring very low materiality levels, thus raising audit fees.

38. Mr. Santarelli mentioned a recent client discussion on whether they should issue financial statements with a qualified opinion for GAAP for a departure from FIN 46(R). He indicated that it is an acceptable alternative depending on how close the relationship is between the bank and the client. He stated this may be hazardous for banks lending to contractors with certain joint ventures.

39. Ms. Seidman mentioned that she was part of the original user panel that was created to discuss this issue, and she hears the same recurring message. She recounted two users saying they would like to know the relationship described in the above scenario, but maybe the issue is a matter of execution. She asked for clarification on the issue, and whether it is too complex, too costly, or simply an audit cost issue. Mr. Golden stated that he is interested in knowing the costs of the

preparer to consolidate versus the cost to the investor to not consolidate. Mr. Lomax stated that the key issue is whether the standard is so expensive that they will receive reviewed financials instead of audited financials.

40. Ms. Lawrence stated that the real problems arose when, from reading the literature, people consolidated things that made no sense when viewed as consolidated information. An example cited was conglomerates that owned unrelated entities, where the consolidated numbers do not mean anything. She noted they were often consolidated due to guarantees.

41. Mr. Santarelli noted that the industry had a difficult time understanding the standard, particularly the agency and related party issues. He noted that many times, an auditor would say they needed to consolidate and the bank would say they did not need to consolidate. He cited a general negative sentiment about the standard, but acknowledged that this was before the issuance of FAS 167. He indicated that he believes the industry is not fully educated on FAS 167.

42. Ms. O'Dell stated that one of the problems with FAS 167 was the concept of variable interest entities, and that many people believe this concept is a reaction to Enron. As a result, many believe that the standard does not relate to them. The CPE sessions were instructing people to consolidate under certain scenarios while others were offering conflicting views, leaving people confused and frustrated. She noted that if the Board were to take any lessons from FIN 46(R), it is to understand the private company circumstances that may arise, and how the standard will impact those circumstances.

43. Mr. Santarelli stated he believed all related party leases of real estate should be capitalized because the related parties control the terms of the lease.

44. Mr. Campbell noted that the challenge of FIN 46(R) is that the principle is unclear. He stated that to him, the principle is about exposure to risk, yet the terms "primary beneficiary," and even "power" and "control" imply that the standard is not as concerned with exposure to risk. He noted that the standard does not result in recognizing solely the risks the business is exposed to, and reporting entities end up consolidating entities that are not appropriate.

45. Mr. Beckwith notes that he is not aware of whether education has caught up with FAS 167, but it is difficult to learn standards requiring significant judgment. He

stated that he understands the need to promulgate more guidance to alleviate variability in application, but said this adds more details for interpretation.

46. Mr. Smith stated that one aspect he is taking away from the discussion is not to rely on others to educate, and stated that perhaps the Board should be educating. He stated that the Big 4 firms spend enough time following projects through development so that they are comfortable by the time a standard is issued, but private companies usually do not pay attention until an Update is issued. Mr. Golden agreed. Mr. Linsmeier added that another benefit of education is a more complete feedback loop. Ms. Seidman suggested a webcast series not only for final standards, but also for Exposure Drafts. Ms. O’Dell cited a meeting where Mr. Linsmeier corrected the misperceptions of a private company constituent, and how this sort of dialogue would be valuable for the public to hear. Mr. Santarelli spoke about the Auditing Standards Board and how it developed guidance for smaller, less complex companies. He noted the standards are the same, but the application guidance was different. He suggested the Board to consider a similar model. Mr. Linsmeier stated that a requirement to provide more education would also help the Board understand private company transactions. Mr. Beckwith added that attention would be greater if the sessions were for CPE credit.

**ISSUE 3: FIN 48 PRIVATE COMPANY CONCERNS**

47. Ms. O’Dell began the discussion with a background of FIN 48, and stated that FAS 109 excluded pass-through entities and not-for-profits, but the interpretation included them. She stated some of the private company concerns related to the fact that most private companies were not involved in earnings management through “cookie jar” reserves relating to uncertainty in income taxes. Smaller private companies believed they had no uncertain tax positions. She mentioned that state tax and nexus issues were another major private company concern. Companies are now required to accrue uncertain tax positions for taxes that may never be levied by some states. Private companies believed these were public company issues.

48. Ms. Seidman noted that the SEC brought this issue to the FASB’s attention because it was unclear how to account for uncertain tax positions. She noted the broad inconsistencies in estimating the values of uncertain tax positions and how some companies viewed this as a tax asset issue, while others viewed this as a tax liability issue. She stated that she finds it difficult to understand how this is not a private company concern, given how aggressive individuals can be on their tax returns. Mr. Golden commented that during research, the staff was told this will not have a large impact on private companies because they do not take aggressive tax positions. Ms. O’Dell stated that the issue is more of a state nexus issue rather than a federal one.

49. Mr. Golden asked whether companies were aware that they had state nexus issues before the issuance of FIN 48. Mr. Santarelli replied that technology improvements, increased audit focus, and liberalization of the three factors for nexus led to an increase in the number of nexus issues. He added that the only major federal tax issue was with international taxes such as transfer pricing, but after a couple of years, it was manageable.

50. Mr. Beckwith noted that there are very few permanent tax items, and that state taxes change frequently due to various incentives. Uncertainties in tax may arise when there are inconsistencies between state taxes. He mentioned that FIN 48 did not change people’s ideas as to what taxes they think they owe, it changed the way to measure it. He stated that the reason private companies wanted delays was to let the public companies pay for everyone to figure out how to apply FIN 48, because it is not relevant for private companies. He noted that FIN 48 is not as big a deal now because people have learned the process, and if there had been an extra year for private companies to implement the standard, this would not have been a huge issue.

51. Mr. Mechanick stated that the Blue Ribbon Panel comment letters cited FIN 48 as being non-relevant and costly, and asked what the lingering issues are. Ms. O’Dell responded by saying it was the process of issuing FIN 48 that left a negative sentiment. Mr. Linsmeier stated that he is surprised that what he hears is not about user needs and costs, but is instead about process and perception issues, particularly the perception that these standards were created for public company

problems and forced onto private companies. He noted that although these perceptions may not be entirely accurate, there may be some truth to them. He commented that these perceptions might also be a result of public companies' continual involvement with a standard's development due to certain economies of scale, while it may not be cost beneficial for private companies to be as active throughout a standard's development. Mr. Linsmeier also paraphrases the participants' views that the Board is not exposed to enough private company transactions. He believes extended effective dates and more education could mitigate this. Education before issuance will expose problems before they become big issues. Mr. Linsmeier also emphasized the fact that the Board did not jump on the issues because they were public company issues, but because they were failed standards in general.

52. Mr. Mechanick clarified that this may be the case with these two standards, but there are many other topics the participants had brought up during the Blue-Ribbon Panel public submissions. Ms. O'Dell stated that the reason the Board is not hearing "fix it" comments is because the standards have been effective for a while, and people learned how to deal with them. She also noted that fair value measurement for non-financial private institutions will be a significant fork in the road moving forward, and suggested particular care be taken to ensure private company views are properly vetted. Mr. Beckwith cautioned the Board against obtaining false security from the Big 4 firms, who do a poor job of representing private company concerns.

**FAIR VALUE AND IMPAIRMENT MATTERS**

53. Mr. Campbell asked whether the FASB should include in its mission enforcing the proper implementation of standards, or whether that responsibility should fall solely on practitioners. He stated that passing rules to enforce standards does not work. He brought the discussion back to FIN 48 by mentioning there are issues for large international companies and for companies that trade based on their net asset value. He stated that FIN 48 is missing a number of measurement judgments and practical implementation issues, and cited the case of investment companies

filing in Australia. He noted that all but one Big 4 firm insisted they should accrue a tax liability in this particular instance, but the IASB said they would not have to accrue the liability. Mr. Golden stated that the FASB staff agreed with that one firm, and stated that what he hears is the need for a better framework for implementation issues. He also noted that when the FASB began weighing in on implementation issues, they were criticized. Constituents said practitioners should take care of the issues. Mr. Golden also mentioned that the FASB must be aware of these issues in order to resolve any implementation issues.

54. Mr. Santarelli noted that the level of granularity required for the identification of intangibles in business combinations is a very difficult exercise. He specifically mentioned the difficulty in getting a valuation of what is amortizable and non-amortizable, and what goes into goodwill. He stated that private companies would like to go back to an amortization with impairment model for goodwill. Mr. Beckwith noted a conceptual issue with FAS 142. For example, if a company knew exactly what the economy will be like in 2015 and that company present-valued those future projections, those later years would receive less weight and not require goodwill impairment. However, in 2014 when those projected years receive greater weight, goodwill may be impaired. He noted that people do not pay as much attention to amortization as they do for impairments. He noted that FAS 143 raises the conceptual issue that you have assets on the books that may not be assets.

55. Mr. Linsmeier mentioned that he does not believe all level 3 measurements are a problem. He stated an example where markets are irrational, fair values are inflated, and the bank has no plans on selling these assets. These conditions provide an incentive for banks to over-leverage. In this situation, there is a problem with level 1 measurements. On the contrary, Mr. Linsmeier stated that he does not have a problem with level 3 measurements if the company plans on selling those instruments. Mr. Santarelli clarified that he was speaking of non-financial assets, and he agrees with Mr. Linsmeier regarding financial assets. Ms. Lawrence stated that the financial industry created their own problems and fair value simply brings those problems to light. Ms. O’Dell questioned whether the

FASB should bifurcate between financial and non-financial institutions for purposes of reporting level 3 measurements.

56. Mr. Golden asked if public company partners are concerned with FAS 141(R), FAS 142, and FAS 143. Mr. Santarelli said they were because many public companies are smaller public companies. He stated that private companies are willing to accept the amortization of goodwill's effect on earnings, while public companies are willing to risk future impairments and not amortize. Mr. Santarelli noted, with regard to FAS 143, that he understands the need for an asset/liability under the asset retirement obligation, but believes a discounted cash flow using a risk-free rate is sufficient. Mr. Beckwith stated that they previously recorded an asset retirement obligation, but just changed the way it was measured. Mr. Linsmeier asked whether a discounted cash flow and remeasurement approach would suffice enough in the private company environment. Mr. Beckwith noted that the measurement concepts between standards are not entirely consistent.

**CLOSING REMARKS**

60. Ms. Seidman stated that she takes the points made about education, the process, and the development of standards very seriously. She said she would like to deal with issues sooner rather than later. She stated that in the past, the Board's attitude was to make improvements effective quickly, and while the Board has since modified that attitude, there is still room for improvement.

70. Mr. Golden stated that he thought the discussion about users and education was very important, and noted that information regarding the costs of implementation and the recurring costs associated with new standards will be very useful. Ms. Seidman stated that she would like to understand the significant cost drivers of new standards, and whether there are less costly alternatives that will still achieve the same results in the financial statements.

**Attachment A**

## FASB ROUNDTABLE MEETING AGENDA

Private Company Concerns regarding Consolidations

1. There is a presumption in U.S. GAAP that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for fair presentation (810-10-10-1). The FASB's recently issued Statement 167, Amendments to Interpretation No. 46(R) now requires that the consolidation analysis for variable interest entities be based on a notion of control. Although there is a difference in the definition of control, this requirement is similar to the consolidation requirements for voting interest entities. Do you agree that the consolidation requirements should be based on the notion of control? If not, please articulate your rationale for not consolidating when a reporting entity controls another entity.

2. A common structure amongst private companies involves an operating entity leasing assets from a commonly owned lessor. Often, the operating entity is required to consolidate the commonly owned lessor entity as a result of the lessor entity being considered a variable interest entity and the operating entity being identified as the entity within the controlling related party group that is most closely related to the variable interest entity. Do you believe consolidating financial statements, or the recent requirements under Statement No. 167 to require separate presentation of elements of consolidated VIEs (ASC 810-10-45-25), alleviates these concerns?

3. The related-party guidance in paragraphs 810-10-25-42 through 25-44 (as amended by Statement 167) limits structuring opportunities by requiring a reporting entity to consider certain rights and/or interests held by its related-parties in the consolidation analysis. As discussed in question 2, the FASB is aware of certain private company scenarios where the related-party guidance may cause an operating entity to consolidate another commonly controlled entity. Please articulate any suggestions to improve the related party guidance that will alleviate private company concerns while preserving the objectives of the related party guidance.

4. The variable interest subsection in Subtopic 810-10 includes implementation guidance and illustrations in an attempt to provide examples on how to apply the concepts in paragraph 810-10-25-38A for identifying whether to consolidate a VIE to various fact patterns. Do the illustrations provide useful guidance for private companies applying the variable interest subsection in Subtopic 810-10 (as amended by Statement 167)? If not, please provide a detailed description of typical scenarios requiring significant judgment when applying the requirements in paragraph 810-10-25-38A that are not addressed in the implementation guidance.

5. The requirement to consider implicit variable interests is often considered to add complexities in the consolidations analysis performed for variable interest entities. The Board included this requirement to incorporate entities lacking explicitly stated interests that may hold otherwise substantive implicit variable interests within the consolidations analysis. The FASB is aware that there are significant concerns as to how private entities should apply the implicit variable interest guidance in the context of private companies? Please provide suggestions for improvements to this area, including how you believe that this will result in a more sound conclusion of which entity controls a variable interest entity.

## Private Company Concerns regarding Uncertain Tax Provisions

1. Describe the impact (material, immaterial or none) that the adoption of FIN 48 (Topic 740) had on the financial statements that you were involved with.

2. Describe the challenges associated with implementing FIN 48.

3. Share your views on the applicability of FIN 48 to non-public entities, and what improvements or further implementation guidance you feel should be considered in order to improve upon the requirements.

**Attachment B**

| **Roundtable Participants** | |
|---|---|
| Judy O'Dell | Chair of the PCFRC |
| MaryAnn Lawrence | Key Corp |
| George Beckwith | National Gypsum |
| Phillip Santarelli | ParenteBeard LLC |
| Mario Solari | Whittlesey & Hadeley |
| David Lomax | Liberty Mutual |
| James Campbell | Wellington Management |