



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ [www.nasba.org](http://www.nasba.org) ◆

May 31, 2013

Technical Director  
File Reference No.2013-250  
Private Company Council  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via e-mail to [director@fasb.org](mailto:director@fasb.org)

*Re: Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*

We appreciate the opportunity to comment on the staff discussion paper, *Private Company Decision-Making Framework; A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the Guide) issued April 15, 2013 and the related *Invitation to Comment* (the Invitation).

The mission of the National Association of State Boards of Accountancy (NASBA) is to enhance and advance the common interests of Boards of Accountancy that license and regulate all public accounting firms and certified public accountants in the United States and its territories. In furtherance of that objective, we offer the following comments.

### **Strong Support of the Private Company Council (PCC)**

We continue to offer our strong support of the Financial Accounting Foundation's decision to form the Private Company Council (PCC) to address the financial reporting needs of private companies, rather than establish a separate board to issue accounting standards. NASBA also supports the open process of the PCC to expose the proposed Guide for public comment, rather than limit consideration to internal discussion. We understand the PCC will likely engage the public in further roundtable (and possibly "town hall") meetings for the purpose of obtaining additional feedback from stakeholders prior to the Guide being finalized. We encourage and offer our support to undertake such endeavors as we believe it will be beneficial.

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We believe the Guide will be useful in giving broad direction to both the PCC and the Financial Accounting Standards Board (the Board) in their decision-making process. However, we would hope that both bodies would not be overly constrained by the Guide; they should make whatever changes in private reporting they deem necessary as their work unfolds. There are likely unforeseen issues that are yet to be contemplated at this stage of the PCC's development.

### **Response to the Invitation's Specific Questions**

*Question 2: Do you agree that this guide is based on the appropriate differential factors between private companies and public companies?*

We generally agree that the Guide is based on appropriate differential factors. However, we have some concern about the statement in *Access to Management* (beginning on page 9) saying, "Generally, private company investors can request and often obtain additional material information beyond what is included in financial statements from management." Our observations are reflected in our comments on Question 5 below.

The Invitation states in paragraph 8 that a tentative decision of the Board is that a business would not be "within the scope of this guide if it (a) files or furnishes financial statements with a regulatory agency for purposes of issuing securities in a public market or securities that trade in a public market, or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market." This scope appears to address primarily businesses that are currently issuing securities or have securities that are actively trading. Many private companies have not registered securities with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 but nonetheless remain subject to the Securities and Exchange Act of 1934; however, there may not be an active market for their securities. We believe that any business filing or furnishing financial statements to the SEC or any other governmental agency or regulator should be outside of the Guide's scope, regardless of the level of trading in their securities, if any.

*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?*

We generally agree that the Guide should lead to decisions that will provide relevant information in a more cost-effective manner. A concern of all preparers is the cost of complying with the requirements of financial reporting standards, including the cost to provide sufficient appropriate audit evidence to external auditors. Cost should not be the dominant factor in making decisions about financial reporting, but should be a significant consideration if cost is thought to outweigh the benefit of increased relevance.

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

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*(a) Do you agree that this guide appropriately considers industry-specific accounting guidance for private companies?*

*(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?*

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

We generally agree that the Guide appropriately considers industry-specific guidance for private companies.

As we have stated in our response to Question 3, compliance cost should not be the dominant factor for making decisions about financial reporting alternatives, but should be considered if the cost of compliance is estimated to outweigh the benefit of increased relevance.

We believe industry-specific guidance should reasonably provide room for some differential disclosures, but rarely, if ever, impact recognition or measurement.

*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?*

We generally agree that the sections of the Guide appropriately describe and consider the primary information needs of users.

The Guide should provide more consideration about users' access to management. Lenders generally have the ability not only to ask questions of management, but to also obtain additional information when needed. However, passive investors and unaffiliated users generally do not have that same ability. Also, there is a difference in access depending on whether investors' ownership is closely or widely-held. When there are larger numbers of investors in a private company, their informational needs are likely to be more similar to those of public company investors. We believe the Guide should take a balanced approach to consider the level of available access to additional information.

Regarding the *red-flag approach*, we believe that the Guide provides a good description of the approach. The approach can, and should, be used for investors in all private companies.

*Question 6 (paraphrased): Do you believe that the questions listed below are necessary for considering alternatives for private companies within recognition and measurement guidelines?*

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

*(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?*

*(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?*

We agree with the thrust of the questions set forth above.

*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 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 application in another area?*

We agree that management of a private company should be able to choose specific alternatives it believes are most useful to users of its financial statements without having to choose all alternatives. Private company financial statement preparers and, more particularly users of private company statements, would derive no benefit from “all or nothing” approaches. We strongly urge the PCC to maintain its current position that private companies may select among alternatives that are in their best interest.

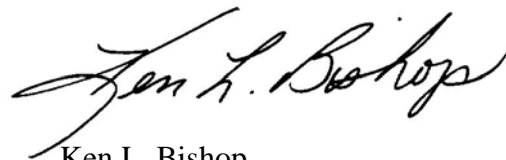
We agree that, in certain circumstances, the Board and the PCC could appropriately link eligibility for application of alternatives for recognition or measurement in one area to application in another area.

We appreciate the opportunity to respond to the Invitation to Comment.

Sincerely,



Gaylen R. Hansen, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO