



Via Email
director@fasb.org

Re: File Reference No. 2013-250
Private Company Decision-Making Framework
A Guide for Evaluating Financial Accounting and Reporting for Private Companies

The National Rural Electric Cooperative Association, (NRECA) appreciates the opportunity to respond to the Financial Accounting Standards Board (FASB) and Private Company Council (PCC) Invitation to Comment regarding the Private Company Decision-Making Framework. We supported the FASB in the creation of the PCC and we agree with the PCC's overall mission.

NRECA is the national service organization representing over 900 not-for-profit, member-owned, rural electric cooperative systems, which serve 42 million customers in 47 states. The vast majority of NRECA members are private companies. NRECA estimates that electric cooperatives own and maintain 2.5 million miles or 42 percent of the nation's electric distribution lines covering three-quarters of the nation's landmass. Cooperatives serve approximately 18 million businesses, homes, farms, schools and other establishments in 2,500 of the nation's 3,141 counties.

Our members have made extensive use of Statement of Financial Accounting Standards (SFAS) No. 71 (now ASC 980) since its inception in December 1982. During the time of the promulgation of this standard, NRECA's members, along with other entities in rate regulated enterprises, heartily endorsed the idea that Generally Accepted Accounting Principles (GAAP) in the United States should include a mechanism to account for the effects of regulation since a regulator can order that items of income or expense be included in different periods for ratemaking purposes than would otherwise be the case under GAAP as it applies to enterprises in general. In our view, the inability of entities to reflect the actions of a regulator would seriously damage the credibility of GAAP based financial statements to our stakeholders. Throughout this period of time, our lenders and regulators (which, the case of electric cooperatives, are generally their boards of directors) have come to rely on and make strategic decisions based on the GAAP basis financial statements including SFAS No. 71.

We must confess that we were dismayed to learn that it appeared that the PCC and FASB would be considering whether private companies would be eligible to apply GAAP for specialized industries as it applies to enterprises in general. Specifically, this language in the Invitation to Comment was most troubling: "If an entity is within the scope of this guide, that entity may not necessarily be eligible to apply all financial accounting and reporting alternatives within U.S. GAAP that are made available to business entities that

are within the scope of this guide. **The Board and the PCC will consider factors such as user needs, on a standard-by-standard basis, when determining which business entities within the scope of this guide will be eligible to apply accounting and reporting alternatives within U.S. GAAP. For example, this guide indicates that business entities within the scope of this guide may be subject to the same requirements as public companies for certain industry-specific accounting guidance in instances in which the Board and the PCC determine that industry-specific guidance is relevant to financial statement users of both public companies and private companies.** The Board also may evaluate whether a particular accounting or reporting alternative that is permitted to be applied by a business entity within the scope of this guide should be extended to a public company, a not-for-profit organization, or an employee benefit plan.”

We would have no objection and would support the FASB and PCC if they wished to change *disclosure* for private companies utilizing specialized industry accounting, but we strongly encourage the FASB and PCC not to alter *recognition and measurement* under GAAP as it currently exists for specialized industries.

Therefore, having stated the above, we offer the following answers to the questions posed in the Invitation to Comment:

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 be allowed to continue using GAAP as it currently applies to all enterprises. We would be more understanding if there were problems in the application and use of ASC 980 by our stakeholders, but we believe that the use of industry specific guidance in our case allows us to present financial statements which much more clearly reflect the results of our operations than would be the case absent the ability of our members to utilize ASC 980 as they have for the past 31 years.

- 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?

Since our stakeholders including our members, lenders, rating agencies and others have been relying on our ability to clearly reflect the results of our operations for the past 31 years under SFAS No. 71 and ASC 980, and the neither the FASB nor PCC have heard any evidence to the contrary, we submit that the costs associated with eliminating regulatory assets and liabilities and maintaining two sets of books and records would be born by our members without any commensurate benefit. Instead, our members would be placed at a competitive disadvantage with regard to public entities who may continue using ASC 980. Regulators, lenders and others who have relied on our GAAP based financials for over three decades would be forced to adapt to a new basis of financial reporting that may significantly distort the results of our operations and the ability of our members to match and recover items of regulatory income and expense. If the FASB and PCC should decide that the application of industry specific guidance for private entities would be optional, we would be happy to support this approach, but we would most vigorously oppose any effort to mandate that private companies could not use industry specific guidance (in particular ASC 980).

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

In our industry, we do not see the need for any differences with respect to private company's recognition and measurement or disclosure of regulatory assets and liabilities under ASC 980. However, as we mentioned previously, if the FASB and PCC wished to amend disclosure but not recognition and measurement for private companies utilizing specialized industry accounting, we would support this effort.

Impact of Cooperatives on the US Economy

Throughout the process of the formation of the PCC, NRECA and the National Society of Accountants for Cooperatives attempted to have a cooperative accountant or a CPA firm representative with significant cooperative experience selected to be a member of the PCC. Unfortunately, we were not successful in this endeavor.

We were disappointed to find that there was no mention made of cooperatives in the Invitation To Comment although a number of private entities forms of organization were mentioned. Cooperatives are a very important part of the economy in the US and the world. Below is an excerpt from a study done by the University of Wisconsin which may be accessed here:

<http://reic.uwcc.wisc.edu/summary>

“Nearly 30,000 U.S. cooperatives operate at 73,000 places of business throughout the U.S. These cooperatives own >\$3T in assets, and generate >\$500B in revenue and >\$25B in wages. Extrapolating from the sample to the entire population, the study

estimates that cooperatives account for nearly \$654B in revenue, >2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income.”

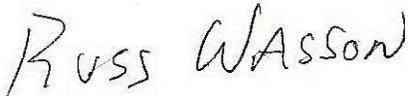
“Americans hold 350M memberships in cooperatives which generate nearly \$79B in total impact from patronage refunds and dividends. Nearly 340M of these memberships are in consumer cooperatives.”

“Cooperative firms are fundamentally different from other forms of business organization. Assessment of economic impact solely in terms of the magnitude of business activity provides an incomplete perspective on the total impact of cooperatives. To initiate study on these more complex impacts, we prepared a series of eight discussion papers. They address methodological and empirical approaches for exploring deeper issues on the economic and social significance of cooperatives, and, in part, will form the basis for subsequent phases of this research project.”

While we know that the FASB is aware of the nature of the cooperative business model, we hope that the PCC, as it moves forward in its mission, will take the needs of cooperative forms of private companies into account, as we are certain they will, in their future deliberations.

We greatly appreciate the opportunity to comment in this most important matter and if we may be of assistance in any capacity regarding this issue, we trust that you won't hesitate to call upon us.

Warm regards,

A handwritten signature in cursive script that reads "Russ Wasson".

Russell Wasson
Director of Tax, Finance and Accounting Policy
National Rural Electric Cooperative Association