

Please note that the comments expressed herein are solely my personal views

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

Dear Sir.

Thank you for giving us the opportunity to comment on your Invitation to Comment: Private Company Decision-Making Framework; A Guide for Evaluating Financial Accounting and Reporting for Private Companies.

#### Framework

The Private Company Council (PCC) was established by the Financial Accounting Foundation (FAF) with two primary goals: first, to determine whether exceptions or modifications to existing non-governmental US GAAP are required to address the needs of users of private company financial statements; and second, to serve as the primary advisory body to the Financial Accounting Standards Board (FASB) on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.<sup>1</sup> This invitation to comment presents the PCC's and the FASB's updated draft of an initial Discussion Paper, which was presented in July 2012.<sup>2</sup> The FASB and the PCC have identified six significant factors<sup>3</sup> that differentiate the financial reporting considerations of private companies and public companies, and seek feedback on five areas<sup>4</sup> where financial accounting and reporting guidance might be different for private and public companies.

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<sup>1</sup> See Establishment of the Private Company Council, FAF, May 2012, available at: <http://www.accountingfoundation.org/home>

<sup>2</sup> See Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies, FASB, and my comment letter thereon.

<sup>3</sup> Types and number of financial statement users, access to management, investment strategies, ownership and capital structures, accounting resources and learning about new guidance.

<sup>4</sup> Recognition and measurement, disclosures, presentation, effective date and transition method.

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### Changes from the initial Discussion Paper

The FASB and the PCC have now considered respondent's comments on the initial Discussion Paper as well as the views received through outreach activities. The significant changes made to the initial framework are as follows:

- the updated draft removes the presumption that industry-specific recognition and measurement guidance is relevant to users of both public and private company financial statements. If not, then the FASB and the PCC can consider alternatives for private companies;
- the updated draft allows a private company to select alternatives within recognition or measurement guidance it deems appropriate without having to apply all alternatives within recognition and measurement.

In general I support these changes subject to complete disclosure of decisions made, and tracking of changes in selections for recognition and measurement. This would allow flexibility so that the management of a private company would be able to select the alternatives that would provide most meaningful information to users of private company financial statements.

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## **Answers to other specific questions raised by the FASB**

Please note that my responses here are similar to my original responses to the FASB Discussion Paper, Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies

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

- a. Please indicate whether you are a financial statement preparer, user, or public accountant, or if you are a different type of stakeholder, please specify. Please indicate if you are both a preparer and a user of financial statements.

*I have worked as preparer and user of financial statements (user), and I have also carried out ad hoc internal auditing for various entities. My primary business is financial and other services.*

**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.

*Yes, this guide is based on the appropriate differential factors between private companies and public companies.*

**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?

*Yes, I 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.*

**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?

*In general I oppose industry-specific accounting guidance on principle, as financial accounting standards should ideally be principles-based, thus obviating the need for extensive industry-specific considerations. However, I 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. This would increase consistency and clarity of financial reporting, and would be less confusing to users.*

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**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?

*I agree that 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. I also agree that the disclosure section appropriately describes the red-flag approach often used by users when reviewing private company financial statements. However, paragraph BC46 is rather vague and subjective in terms of content. It states that: “under a red-flag approach, some information in the notes can be limited to basic information necessary to facilitate a user’s review and to allow a user to identify appropriate follow-up questions to present to management when the user deems it necessary to do so. However, in evaluating the benefits and costs of providing disclosure alternatives for private companies within U.S. GAAP, the Board and the PCC should consider whether the remaining disclosure requirements in a particular area would provide typical users of financial statements with enough information to facilitate an effective red-flag approach.”<sup>5</sup> I would ask for some more clarity on how this procedure would be expected to work in practice.*

**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?
- 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?

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?

*Regarding relevance and recognition and measurement, the general principle is that similar economic transactions should be reported consistently between different entities, and ownership and capital structures. Within this, I would agree that you have identified the appropriate questions for the FASB and the PCC to consider in this area of the guide. In particular, decisions regarding recognition and measurement should be based on the quality, relevance, cost and complexity of the reporting. Of these factors, quality and relevance are most important.*

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<sup>5</sup> Please see paragraph BC46 of the Invitation to Comment.

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**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?

*In general I support 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. This would allow flexibility so that the management of a private company would be able to select the alternatives that would provide the most meaningful information to users of private company financial statements.*

Yours faithfully

C.R.B.

Chris Barnard