

# International Association of Consultants, Valuators and Analysts

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21 June 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
File Reference No. 2013-250
By email: director@fasb.org

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) as well as the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering 55 countries, listed in the appendix, serving about 10,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of guidance and standards related to valuation both under International Financial Reporting Standards (IFRS), which are used in Canada where we are incorporated, as well as Generally Accepted Accounting Principles (GAAP), applied in the United States, where, at present, a majority of our members resides.

We appreciate the opportunity to comment on the Exposure Draft "*Private Company Decision-Making Framework*". Our responses to the specific questions are as follows:

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.

Most of our members are valuators and therefore users of financial statements; some, who are also CPA's, may, from time to time, be preparers.

b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your business and its size. If applicable, describe any relevant prior experience in preparing financial statements for private companies or public companies.

Our members work with both publicly traded and owner operated entities of various sizes.

c. If you are a user of financial statements, please indicate in what capacity (for example, investor or lender) and whether you primarily use financial statements of private companies or those of both private companies and public companies.

As there are many more privately owned companies than those with traded shares, our members primarily deal with the former.

d. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on private companies or both private companies and public companies.

Our members range from sole practitioners to employees and partners of the 'final four' accounting firms.

**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.

The factors differentiating private from public companies considered by the Council are:

I.	DF 1-3	Types and Numbers of Users
II.	DF 4-5	Access to Management
III.	DF 6-7	Investment Strategies
IV.	DF 8-9	Ownership & Capital Structure
٧.	DF 10-11	Accounting Resources
VI.	DF 12-13	Learning about Guidance's

Many of our members are asked to prepare valuations for matrimonial matters, where there is not only no access to management but the disclosure under the proposed framework would be insufficient. We recommend removal of that factor and the inclusion of a requirement for a "Management Analysis & Discussion". In addition, we believe that items III and IV often do not apply. As an increasing number of private companies have venture capital or private equity investments.

**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?

We believe that the proposed framework would reduce costs for entities that do not require full GAAP disclosures, but would result in a lot of relevant information remaining hidden.

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?

To the extent that industry specific accounting guidance is included in GAAP, the same guidance should apply to private as well as public 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?

We suggest that cost and complexity should always be considered but that industry specific guidance should apply to every participant irrespective of ownership or capital structure.

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

We consider that disclosure is an inherent part of industry guidance.

**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?

As previously mentioned, access to management is not always available; therefore we see no advantage in moving to a red-flag approach.

**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?

We accept there will be an impact due to the necessary delays in preparing financial statements, but believe that should be dealt with in a "subsequent event" note.

**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 agree that a private company should be able to choose appropriate alternative recognition or measurement guidance provided it adopts them consistently until or unless control changes hands.

In general we are disappointed that FASB did not adopt the well-proven IFRS for SMEs.

Should a Board or staff member wish to discuss this matter further, they may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of IACVA Per

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James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CGMA, CFE Chair

### **Appendix**

## **IACVA List of Countries**

#### **Americas**

Bahamas Thailand Canada Grenadine Islands

Guatemala **United States** 

Mexico Puerto Rico Argentina Brazil

## **Africa**

Ghana Kenya Nigeria South Africa Uganda

#### **Europe**

Austria Germany Netherlands Switzerland Romania Ireland

**United Kingdom** 

#### Asia/Pacifica

China Taiwan Japan South Korea Hong Kong Singapore

Malaysia Australia India

#### Middle East

Lebanon Egypt Syria Jordan Kuwait

**United Arab Emirates** 

Saudi Arabia

Israel Bahrain

# Commonwealth of Independent

### **States**

Armenia Azerbaijan

The Republic of Belarus

Kazakhstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan

Ukrain Uzbekistan Georgia Estonia Latvia Lithuania