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July 8, 2013

Ms. Susan M. Cospers
Technical Director
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2013-250

Dear Ms. Cospers:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) and the Private Company Council's (PCC) April 15, 2013, Invitation to Comment, *Private Company Decision-Making Framework—A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the guide).

The guide represents a framework for the Board and the PCC to use in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under U.S. GAAP. FinREC supports the objective of the guide. We agree that, in certain instances, alternatives may be warranted for certain private companies within U.S. GAAP with respect to recognition, measurement, disclosure, display, effective date, or transition requirements. We also support the approach of offering alternatives for private companies rather than producing a different conceptual framework for private companies. We believe that the board's project on the definition of a nonpublic entity will be very helpful in applying the guide.

FinREC believes that the Board should establish an appropriate threshold for the circumstances that warrant providing alternatives to private companies. Further, the threshold for qualifying for alternative recognition and measurement guidance should be more restrictive than the threshold for qualifying for disclosure alternatives or an alternative effective date. FinREC presumes that, as a result of these thresholds, alternatives for private companies would arise in a limited set of circumstances for a limited set of accounts and transactions. FinREC believes that the guide should provide that private companies electing alternatives made available to them should be required to disclose their choices in the financial statement note summarizing significant accounting policies. FinREC also believes that the guide should address (i) when a private company qualifying for these alternative treatments should be permitted to initially make the election, (ii) under what circumstances companies should be permitted to change away from a private company alternative, and (iii) what processes a company should be required to follow when making a change to or from a private company alternative after its effective date.

FinREC believes the scope of the guide is important, and we urge the Board to define more completely what constitutes a private company. FinREC also believes that the guide should include further distinctions regarding which private companies within the population of all private companies should be allowed to choose the alternatives made available. We believe that the private versus public company distinction is not adequately rich. We provide more details regarding this latter point later in this letter.

FinREC supports the overriding position that the relevance of the information to users of private company financial statements is the primary consideration in determining whether alternatives will be provided for private companies. Costs and complexity to comply with the provisions in standards will be justified when the resulting information is highly relevant to users. As the relevance decreases for the users of private company financial statements, costs and complexity to comply with guidance becomes a consideration. Similarly, although we acknowledge that access to management is a consideration, we believe that it should be considered a mitigating factor only when assessing the benefits and costs of the information. Currently, the proposal emphasizes that alternatives will be made available to private companies as a “practical expedient.” We acknowledge that, in most instances, practical expediency will be the reason that an alternative is made available to private companies. But FinREC believes that circumstances could exist today or could arise in the future in which alternatives provided to private companies are provided because they actually result in more useful information to the private company financial statement users. Hence, FinREC encourages the Board to add an explicit statement to the lead-in of paragraph 1.5 stating that alternatives might be more relevant for users of private company financial statements. FinREC further encourages the Board to include a question in the subsequent list of questions that addresses this possibility.

The Appendix to this letter includes our responses to the questions raised in the Invitation to Comment.

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Representatives of FinREC and the FinREC Private Company Decision-Making Framework Task Force are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Richard Paul
Chairman
FinREC

Stephen R. Moehrle
Chairman
FinREC Private Company Decision-Making
Framework Task Force

Appendix

Responses to Questions for Respondents

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.*

We believe that the differentiating factors in the guide are appropriate. However, we believe that the guide should state explicitly that the Board should consider further factors within private companies and at the project level such as financial structure, industry, and user needs.

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?*

The guide has the potential to result in useful information for users of private company financial statements. However, the ultimate usefulness is a function of the individual project decisions made by the FASB based on the guide. To this end, FinREC encourages the Board to provide objective, measurable criteria in the guide regarding when such alternatives are appropriate to offer. As discussed in the forepart of this letter, the threshold for qualifying for alternative recognition and measurement guidance should be more restrictive than the threshold for qualifying for disclosure alternatives or an alternative effective date. Further, this framework should provide for a transparent process regarding proposals that include private company alternatives.

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 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?

We agree that factors other than user relevance, such as cost and complexity including accounting resources, should also be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance. As discussed in the forepart of this letter, FinREC supports the overriding position that the relevance of the information to users of private company financial statements is the primary consideration in determining whether alternatives will be provided for private companies. As the relevance of

particular information decreases for the users of private company financial statements, other factors such as costs and complexity to comply with guidance become a consideration.

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

In consonance with our belief that, in general, a higher threshold should be set for private companies to qualify for alternative recognition and measurement guidance than for alternative disclosure guidance, we would not preclude industry-specific accounting considerations being different between (i) recognition and measurement and (ii) disclosure.

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?*

We believe the disclosure section is well done. Regarding disclosures, FinREC reiterates the need to disclose the alternatives chosen in the summary of significant accounting policy choices and to prominently display any “red flag” disclosures.

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?

As discussed earlier, FinREC encourages the FASB to establish an appropriate threshold for private companies to qualify for alternative treatments especially as they relate to recognition and measurement. We do not view these three criteria as consistent with such a threshold. We find the probability-based criterion especially troubling. We can foresee instances in which less likely events or transactions would be highly relevant to users.

We also believe that access to management should not be a primary consideration on the event/transaction level. We agree that obtaining certain information directly from management reduces the potential costs of preparing financial statements, and hence provides support for the concept of offering alternatives. However, we do not view access to management as a primary determinant of information relevance for any particular event or transaction.

Regarding the lag between year-end and statement issuance, we believe the Board should not generalize about the timeliness of private company financial statements relative to public company statements. Furthermore, as noted in paragraph BC 17, the financial statements may provide valuable confirmation of information obtained through means other than financial statements. Hence, we do not support this criterion as a significant determinant of relevance of information to private company users.

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?*

FinREC supports allowing qualifying private companies to select 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. We reiterate that these choices should be reported prominently in the notes. We further find it reasonable that, in certain circumstances, the Board and the PCC will find it prudent to link eligibility for application of alternatives within recognition or measurement in one area to the application in another area.

It is unclear how entities would elect such alternatives and whether and how entities might change between the alternatives. We think that an entity should be allowed to elect an alternative at the date of adoption or select the option later based on preferability. The board should also provide guidance on how an entity might “unwind” such alternatives when the entity no longer meets the requirements for the exception (e.g., an initial public offering).