



August 23, 2013

Financial Accounting Standards Board  
Technical Director  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. PCC-13-01A

Dear Ms. Cosper:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to provide its views to the Financial Accounting Standards Board (FASB) and the Private Company Council (PCC) on the proposed standards updates, *Accounting for Identifiable Intangible Assets in a Business Combination*, *Accounting for Goodwill* and *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps* issued on July 1, 2013 (Proposals).

The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Information on the FRC can be found at [www.imanet.org](http://www.imanet.org) under the Advocacy section.

As stated in our letter to the Financial Accounting Foundation dated December 22, 2011 regarding the *Plan to Establish the Private Company Standards Improvement Council*, the concerns raised by private company users, preparers and auditors are real and we support the goals of the Proposals to provide decision-useful information to users and to reduce cost and complexity. We believe that the broad concerns that the Proposals are addressing are equally applicable to publicly held companies, especially considering that the majority of registrants are small and medium size companies. The FASB should fast-track efforts to analyze cost/benefit concerns and reduce complexity for all entities. The scope of the PCC proposals could then be scaled back to focus more on disclosure complexity.

We do not favor the Proposals in the context of a separate set of standards that result in different recognition and measurement principles for privately held companies for the following reasons.

- We believe differences in the core recognition and measurement underpinnings for public and private companies dilute US Generally Accepted Accounting Principles (GAAP).
- We do not believe public and private companies should have different accounting for the same economic transactions.



- We are not convinced that user needs are substantively differentiated to justify the different recognition and measurement principles.
- We believe the Proposals address complexity by adding complexity.

Further, we believe that the Proposals are premature and the comment periods are too short. The paragraphs below address our concerns in more detail.

### **One GAAP**

The FASB has proven over time to have an inclusive and transparent process for standard setting. We believe this process represents the gold standard and produces the highest quality standards for accounting and financial reporting. Over its forty-year history, the FASB has rarely permitted alternatives and, in fact, when reconsidering topics has eliminated alternatives. By and large, the financial reporting standards issued by the FASB are based on the best recognition and measurement treatment for a transaction, resulting in one set of GAAP for all companies or within one industry.

Permitting alternatives under GAAP has negative long-term consequences for financial reporting in the US. The FASB must continue to impose a high hurdle for recognition and measurement differences and operate with a presumption of universal application recognition and measurement for the same economic transactions. While public companies represent a very significant economic segment of entities utilizing US GAAP, the overwhelming majority of entities that are covered by the scope of US GAAP are small to medium sized non-public entities. Private companies are the majority of companies, not the exception. Is it appropriate for the majority of entities to have the option to use alternatives under GAAP? We think no.

To illustrate the consequences of the direction these Proposals and the recently endorsed PCC proposal on *Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements* are heading, assume a private company has goodwill, a purchased non-contractual intangible asset, an interest rate swap hedging floating rate debt and a leasing variable interest entity. Also assume that the FASB finalizes the four PCC proposals which permit a choice of existing GAAP and the allowed alternative(s).

Without considering the choice of two alternatives for interest rate swaps, this private company would have a free choice to prepare its financial statements in at least 16 potentially material different ways assuming that each choice of the accounting policies for each of the four financial statement items is independent of the other choices. The company could get a clean opinion from its auditor on any of the 16 ways. The auditor's opinion would say the financial statements conform to "GAAP"—not "GAAP for private companies".



## **Same Economics, Same Accounting**

We believe that the FASB must continue its gold standard process by first addressing the similarity rather than the differences for private versus public entities. If the economics of a transaction are the same for a private company as they are for a public company, then the measurement and recognition under GAAP should be the same. Optimal recognition and measurement guidance is guidance that can be universally applied in a cost effective manner to transactions with the same economics or within the same industry. Is it appropriate to have four different ways to account for simple interest rate swaps that convert variable rate debt to fixed rate debt? We do not think so. The “man on the street” cannot understand why there is different accounting for exactly the same transaction based on whether or not the user can talk to management or for any other reason.

Offering simpler and easier alternatives to one group of entities for exactly the same transaction is the equivalent of lowering the grading curve so that everyone gets an “A”. We all know what happens to the value of a degree from that institution. It is not acceptable to reduce the standards for the majority of companies in the US.

There are other comprehensive bases of accounting, such as tax basis or cash basis, to address simpler and easier accounting treatment. Members of the FRC have found that it is not uncommon for private company investors to accept via operating agreements only tax basis financial statements.

## **Users’ Needs**

GAAP is intended to produce general purpose (not special purpose) financial statements that meet the needs of a very broad cross section of users. Our experience is that users of financial statements have the same goals and thus are interested in the same information and metrics. Fundamentally, users of both private and public entities need information to predict future cash flows. The lending and investing decisions are the same for a large multinational private company and a large multinational public company.

If the PCC has a solid body of evidence indicating that some aspect of financial reporting is not useful or relevant to users of private company financial statements or that the standard is too complex, the FASB has an obligation to understand whether that is equally true for users of public company financial statements. In short, when the PCC points out a shortcoming in existing GAAP, the FASB has an obligation to understand why its original research, analysis, outreach and conclusions may have been mistaken or become outdated. For example, did the results of the post implementation review for business combination accounting indicate cost/benefit issues? Did the feedback indicate a difference for public and private companies?

Lending agreements provide another example. Given that tangible net worth covenant tests are the same for both public and private companies, goodwill and identifiable intangibles are logically equally as



relevant or equally irrelevant to credit officers. Dialog that members of the FRC from lending institutions have had with the credit departments of their organizations suggests that the credit analysis would require consistent accounting for all entities and would require submission of financial data without alternative treatment. This may limit private company use of the alternatives in the Proposals.

If the FASB finds a significant difference in the needs of users of private company financial statements because of access to management, the FASB should start with differential disclosure. It is logical that the level of information disclosed might vary due to access to management, but not the recognition and measurement. We have some experience with limited disclosure for private companies versus public companies already. Consider segment disclosures and other incremental disclosure received by public company users via SEC regulations.

### **Addressing Complexity by Adding Complexity**

The Proposals assert to be solving complexity problems for both users and preparers. However, these updates perpetuate these problems that they are intended to solve. Recognition and measurement complexity is an issue for **all companies**, including public companies. The only meaningful difference among companies is the ability of larger companies to divert resources to address accounting complexity. There is nothing necessarily right about that resource diversion. In fact, it is easy to argue that unnecessary complexity is wrong and a waste of shareholder value and not useful to users.

Alternative accounting treatments add complexity, confusion and cost to the system by:

- diminishing and frustrating comparability,
- adding to the cost of restatements for entities going public or maintaining two sets of books for the no alternative requirements of lending covenants, and
- adding the cost of initial and continuing education (and licensure) of the alternative accounting for auditors, users and preparers.

Optimal answers are not always the most complex. Frequently, simple, intuitive solutions prove the most cost-effective decision usefulness over time.

### **Premature**

Let's walk before we run. The PCC and FASB have jumped into fundamental recognition and measurement before finalizing a private company framework or the definition of a public company.

### **Limited Comment Periods**

The FASB has not allowed long enough comment periods for such fundamental changes to US GAAP. These important issues require thoughtful evaluation and meaningful input from a broad spectrum of



constituents. There seems to be a rush to judgment with an artificial deadline. Parties affected by the proposed updates include:

- private company preparers,
- auditors of private and public companies,
- users including bank lending officers, commercial company credit departments and insurance companies, and
- public company preparers through the potential extension of the proposals to all entities.

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We would be pleased to discuss these comments with you at your convenience.

Sincerely,

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