MINUTES OF THE SEPTEMBER 16, 2014 PRIVATE COMPANY COUNCIL MEETING

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Tuesday, September 16, 2014
Starting Time: 8:30 a.m.
Concluding Time: 2:15 p.m.

PCC Members Present:
Billy Atkinson, Chairman
George Beckwith
Steve Brown
Jeffery Bryan
Mark Ellis
Thomas Groskopf
Neville Grusd
Carleton Olmanson
Diane Rubin
Larry Weinstock

FASB Board Members Present:
Russell Golden
James Kroeker
Daryl Buck
Harold Schroeder
Marc Siegel

FASB Staff Present:
Michael Cheng
Susan Cosper
Kelsey Jensen
Jeffrey Mechanick
Karlene Tipton
*Elizabeth Gagnon
*Sean May
*Victoria McMillen
*Lisa Muehlbauer
*Scott Muir
*Adam Smith
*Cullen Walsh

* For certain issues only.

INTRODUCTORY REMARKS

The Private Company Council (PCC) discussed its plans for outreach next year. The PCC discussed its tentative plans to attend several conferences, conduct outreach with user groups, and hold a town hall with a college or university in the Dallas-Fort Worth metroplex.

The PCC announced its upcoming meeting dates:

December 10-11, 2014	July 20-21, 2015
February 12-13, 2015	September 24-25, 2015
May 4-5, 2015	December 3-4, 2015

DISCUSSION OF PRIVATE COMPANY COUNCIL PROJECTS

PCC Issue No. 13-01A, "Accounting for Identifiable Intangible Assets in a Business Combination"

The PCC discussed a new alternative (Alternative A') that would allow private companies to not recognize and measure separately any intangible assets in a business combination. Intangible assets acquired in a business combination would be subsumed into a new amortizable unit of account called *Goodwill and Intangible Assets – XYZ Co. Acquisition*. The amount recognized as Goodwill and Intangible Assets – XYZ Co. Acquisition would represent the excess of the purchase price over the fair value of the acquired tangible net assets and financial assets. In applying Alternative A', a private company would be required to:

1. Present goodwill and intangible assets acquired by acquisition separately on the face of the financial statements
2. Amortize goodwill and intangible assets on a straight-line basis over five years or less than five years if the private company demonstrates that another useful life is more appropriate
3. Disclose qualitatively by acquisition, intangibles that are not separately recognized and measured. Accordingly, an entity will always identify intangible assets acquired in a business combination, but will NOT separately measure those intangible assets.

The PCC rejected Alternative A' and reached a final consensus to provide an alternative that would exempt private companies from separately recognizing and measuring non-competition agreements and customer-related intangible assets that are not capable of being sold or licensed independently in a business combination. The consensus of the PCC will be brought to the FASB for endorsement at a future meeting.

For further details on the consensus reached, please refer to the Decision Overview document available here.

ADVISORY DISCUSSION OF FASB PROJECTS

Leases

A FASB staff member provided an update and asked for feedback from the PCC on the recent decisions regarding related party leasing transactions and discount rates.

One PCC member noted that he would prefer using a zero discount rate. That PCC member argued that using a risk-free rate would still require a company to record the present value of each lease on its books manually and would not significantly reduce the cost and complexity in applying the new leases proposal.

To reduce cost and complexity, the Board tentatively decided that the recognition and measurement requirements for related party leases would be applied on the basis of the legally enforceable terms and conditions of the lease, acknowledging that some related-party transactions are not documented and/or the terms and conditions are not at "arm's length." One PCC member expressed concern with the related-party leasing decisions in situations in which a private company would also elect the accounting alternative under FASB Accounting Standards Update No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements.* That PCC member expressed concern that a private company could hold all of its debt-encumbered assets in another entity that is under common control and lease those assets from that entity. In applying the PCC alternative under Update 2014-07, a private company would not consolidate the lessor entity under common control and the related-party lease could be structured not to require the recognition of any asset or liability under the new leases proposal. The staff responded that Update 2014-07 would likely require disclosure of the amount and key terms of liabilities recognized by the lessor entity under common control in the structuring scenario described by the PCC member.

Another PCC member also argued that a lease should not be recognized on the balance sheet unless there is significant or full consumption of the asset or the lease is akin to a purchase. That PCC member stated that his view has not changed and is consistent with the PCC Leases comment letter issued on December 2, 2013. In response, a FASB Board member pointed out that this feedback on the leases project was different from the feedback provided by the Private

Company Financial Reporting Committee (the predecessor to the PCC). Therefore, feedback appears to be quite mixed on the recognition of lease liabilities from the private company community. A subgroup of the PCC will continue working with the FASB leases team in an advisory role.

ADVISORY DISCUSSION OF FASB RESEARCH PROJECTS

Share-based Compensation

An FASB staff member provided an update on the pre-agenda research being conducted on share-based payment accounting. The staff summarized user outreach on two alternatives that the PCC directed the staff to research at the April 29, 2014 PCC meeting. Those alternatives would rely on the most recent observable transaction price for an identical or similar instrument of the entity to recognize and measure share-based payment transactions.

The user outreach indicated that the existing recognition and measurement of share-based payment expense provides relevant information; therefore, the two alternatives were not considered consistent with the Private Company Decision Making Framework. The FASB staff member also presented potential practical expedients for private companies related to intrinsic value, a simplified approach for expected term, and formula value plans. PCC members asked the FASB staff to research areas within share-based payment classification guidance related to awards with repurchase features that require liability classification when, in substance, the awards are more similar to an equity classified award.

The PCC unanimously agreed that the share-based payment project should be led by the FASB. The PCC Chairman asked four members of the PCC to serve as advisors to the project.