MINUTES OF THE APRIL 20, 2018 PRIVATE COMPANY COUNCIL MEETING

Location:	FASB Offices 401 Merritt 7 Norwalk, Connecticut	
	Friday, April 20, 2018	
	Starting Time:	9:00 a.m.
	Concluding Time:	11:30 a.m.

PCC Members Present:
Candace Wright (Chair)
Beth van Bladel
Timothy Curt
Jeremy Dillard
David Hirsch
David Lomax
Michael Minnis
Richard Reisig
Dev Strischek
Frank Tarallo
Yan Zhang

FASB Board Members Present:
Russell Golden (Chairman)
James Kroeker (Vice-Chairman)
Christine Botosan
Marsha Hunt
Harold Monk
Hal Schroeder

FASB Board Members Absent:
Marc Siegel

FASB Staff Present:

Susan Cosper	*Jason Bond
Jeffrey Mechanick	*Jared Cline
Michael Cheng	*Thomas Faineteau
David Hoyer	*Mary Mazzella
Cole Moffat	*Amy Park
	*Christopher Roberge

*For certain issues only.

Introductory Remarks

The PCC chair welcomed the PCC members, six Board members, and other FASB staff to the Council's first meeting of 2018.

Collaborative Arrangements

The staff introduced the Collaborative Arrangements project, which aims to clarify the interaction between Topic 808, *Collaborative Arrangements* and Topic 606, *Revenue Recognition from Contracts with Customers*. The staff sought feedback from PCC members on whether there are additional private company issues the staff should consider as it relates to the proposed Update.

The PCC was generally supportive of the proposed Update, noting the current diversity in practice this project may resolve. One PCC member (practitioner) noted that differences do not exist between public and private companies in this area—both public and private companies participate in collaborative arrangements. One Board member (user) noted that much of the prior outreach was conducted with private biotech companies with an exit strategy of going public and asked if other private companies intending to remain private participated in collaborative arrangements. Some PCC members commented that their private company experiences were primarily with companies with a public exit strategy or arrangements that were immaterial. The FASB chair requested that PCC members consider specific geographic regions, industries, and state societies for outreach to ensure that stakeholders involved with private company collaborative arrangements are aware of the proposed ASU and share feedback to the staff.

Consolidations-Targeted Improvements to Related Party Guidance.

The staff summarized the proposed ASU issued last year that focused on three issues:

1. Applying the variable interest entity (VIE) guidance to private companies under common control (private company accounting alternative)
2. Considering indirect interests held through related parties under common control for determining whether certain fees are variable interests (decision-making fees)
3. Applying certain requirements when power is shared among related parties or when, as a group, related parties under common control have a controlling financial interest in a VIE but none of the parties individually conclude that they have a controlling financial interest (related party tie-breaker test).

Prior comment letter feedback was generally supportive for the first two issues but mixed for the third issue. The staff solicited feedback from the PCC regarding these proposed amendments.

Several PCC members expressed strong support for the private company accounting alternative, and many acknowledged that the related party tie-breaker test would no longer apply to many private companies if the private company alternative were to be finalized. The PCC stated that progress on the private company accounting alternative should not be delayed by further research on the related-party tie breaker test. One PCC member (practitioner) noted that a definition of "common control" would be helpful, although several others noted that this is not a new issue arising from the proposed Update. The Board also clarified that it was its intent that entities use the VOE model to determine control for the proposed private company accounting alternative, as this was not explicit in the proposed ASU.

Cloud Computing Arrangements

The staff provided an update on the Board's project regarding a customer's accounting for implementation costs in a cloud computing arrangement that is considered to be a service contract. The staff explained that the Board issued a proposed Accounting Standards Update and described the proposed amendments, namely the requirement to capitalize certain implementation costs, in addition to the requirement to provide certain disclosures about implementation costs associated with internal-use software and hosting arrangements.

PCC members expressed support for the proposed amendments, recognizing that although the proposed ASU may deviate from the strict conceptual definition of an asset, they were appreciative of the practical approach the EITF and Board had chosen to adopt. The PCC also discussed the business purpose driving the shift towards cloud computing among private companies. Several PCC members expressed that hosting arrangements make it cheaper for smaller companies to participate in an extensive IT infrastructure; easier to receive real-time software updates and remote access; and simpler to manage risk, especially as it relates to cybersecurity.

The FASB chair asked the PCC to consider the impacts of the proposed disclosures on private companies and provide input on these disclosures at a later date.

Share-Based Payments

The scope of the PCC's discussion was limited to equity-classified employee share-based payment awards that are only settled in shares of the entity. The PCC chair began the discussion by inviting PCC members to share the views they expressed in the closed session, followed by a dialogue with the Board member about those views.

The PCC members expressed many ideas and opinions, but three main views surfaced throughout the meeting. Many PCC members believe that current accounting for equity-classified share-based payments (SBP) is not relevant for users of private company financial statements (1) because the calculated amount is very costly while remaining excessively imprecise to the point of even being misleading, and/or (2) because the SBP security of a private company is a fundamentally different from a similar security of a public company. PCC members holding one or both of these views prefer nonrecognition or intrinsic value measurement to the current requirement of grant-date fair value. The third group of PCC members—a small minority—agreed with the current accounting for SBP, believing such accounting does provide relevant information to users, though they would welcome further simplifications to measuring such awards. Additionally, several members were supportive of the Board's research project on improving share-based payment disclosures.

Next Steps.
The PCC chair explained that the PCC's next step was additional outreach to better understand user views on the relevance of SBP awards and their measurement. One Board member (user) thought it would also be helpful to understand whether users believed value was transferred at grant date and, if so, (a) whether SBP information is too imprecise to be relevant and (b) if intrinsic value and/or time value was a true expense.

The outreach will be discussed at the June 2018 PCC meeting.

Revenue Recognition

The PCC discussed one issue in an unsolicited comment letter on Topic 606, *Revenue from Contracts with Customers*, received from the AICPA's Technical Issues Committee. Specifically, PCC members expressed concerns about the costs and complexities required to estimate variable consideration related to out-of-pocket expenses, especially considering there would be no net impact to the income statement over time. In addition, some PCC members expressed concerns that this estimate would be imprecise and that the new model would create a mismatch between the revenue recognition and the expense recognition for the out-of-pocket cost.

The FASB staff noted that this issue was discussed during the initial phases of the Transition Resource Group, but that no public companies have come to the Board with specific requests related to changing this area of the guidance. The FASB chair recommended performing outreach with public companies about their experience with implementation. PCC members (preparers) expressed their desire to include private companies in the outreach to understand the relative impact and materiality of this issue for each of the stakeholder groups.

Open Discussion

The PCC coordinator discussed upcoming PCC activities, including
- A Town Hall at the AICPA ENGAGE conference on June 12 in Las Vegas
- A Town Hall at a meeting of the Montana Society of CPA-s on June 21
- A roundtable of users (bank credit officers) on October 26 at a location to be determined.

The FASB chair asked whether the PCC had any input on other FASB projects recently completed or soon to be completed. The PCC chair expressed that members were supportive of the additional transition option provided in Topic 842. One PCC member (practitioner) requested an update on the Board's project on simplifying the balance sheet classification of debt, and the staff clarified that the Board has completed its external review for the draft of the final Accounting Standards Update, with plans to discuss sweep issues at a future meeting and potentially finalize the ASU after those discussions.

One PCC member (preparer) raised another question on short-cycle manufacturing arrangements posed by the AICPA TIC in its letter on Topic 606. The staff discussed the issue, acknowledging that a transaction may result in a different pattern of recognition under the new model than under previous guidance. However, the staff described the feedback from the PCC's closed session and noted that the issue was generally thought to be manageable.

The FASB chair encouraged the PCC to begin to consider the effects for private companies of the new hedging standard, and he requested the PCC bring feedback to the Board in future PCC meetings about what it is witnessing as private companies begin implementation.

The PCC chair concluded the meeting by thanking everyone for their time and participation.