

# FASB Framework For Private Companies

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## Respondent information

### Type of entity or individual:

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## Questions and responses

1. 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.

I am a CPA

2. 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.

n/a

3. 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 both private companies and public companies.

n/a

4. 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.

ParenteBeard LLC is a large regional firm with approximately 140 partners. We report on over 3,000 financial statements annually, of which approximately 85 are public companies. The balance is comprised primarily of private companies (including over 100 financial institutions), not for profit organizations and employee benefit plans (over 800).

5. Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If it has 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.

Yes we believe the differential factors identified are appropriate.

6. Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?

Yes, we believe the proposed framework will enable the PCC and FASB to make objective decisions as to differences.

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7. Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?

Yes for the most part we agree that permitting departures from industry guidance would not be beneficial. In particular, financial institutions come to mind. Users of those statements should be able to compare with public companies. Moreover, it is likely that the regulators would expect comparability.

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8. Do the different areas of the framework 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 area of the framework appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?

In general the framework does a good job reflecting the needs of the private company users. However, we have some concerns about the so called "red flag" approach. In our view, the financial statements, in some cases should serve to illuminate certain transactions for the preparers and users. We can think of numerous transactions, interest rate swaps come to mind, wherein neither the preparers or the lenders fully understood the underlying economics of the transaction. This is often the case in private companies that raise capital with sweeteners. The actual economic cost of the sweeteners are often not understood. So I struggle with the red flag concept. How will users know what to look for if there is not some disclosure?

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9. Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?

Yes, but I disagree with the inclusion of 1.5 j. This seems to me to be a bit of a red herring and would be applicable to smaller public companies as well. Given the proper amount of time for adoption and an proper transition method, new accounting standards should not impact the timely delivery of financial statements.

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10. Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?

Notably in paragraph 2.8 d, the qualifier "affecting cash flows," I believe is risky when discussing significant events or transactions. It seems that actually all transactions in some way or form affect cash flows eventually. Some care is needed here. Also 2.8 g, does not seem like a reliable filter for PCC or FASB to use. Finally because of the generally limited and controlled distribution of private company statements I don't see 2.8 h as a significant factor.

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11. Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?

Yes

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12. Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred effective date, do you agree that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?

Yes

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13. Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?

Transitions to new standards is generally one of the more costly exercises that entities endure in relation to preparing financial statements. This is particularly the case when a retrospective method is required. I believe that the framework should state that the default choice for transition is the prospective method unless a compelling case is made that there is a strong user need for retrospective application.

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14. Do you agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8–B23 in Appendix B)? If not, why?

Yes except as to conduit bond obligors in this respect. Currently conduit bond obligors are exempted from typical public company disclosure such as EPS and segments. The FASB should be careful to not inadvertently scope in these entities into full public company disclosure by virtue of this definition project.

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15. Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.

No

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16. Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.

Currently GAAP permits some differences within its framework. This is generally the reason that accounting policy disclosures are required, when there are choices. I think this concept should be retained, unless, in the standard setting the PCC or the FASB determine that a private company must elect a certain methodology. To make a blanket statement that all differences, current and future, must be adopted is not beneficial.

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17. Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13(a).

Yes, optionality within GAAP should be retained. I believe a good point of reference is contained in Concept Statement 8, Chapter 1, as follows: OB8. "Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users." It seems that preparers of private company financial statements, should have in mind the users they are providing information for and have some latitude to satisfy the needs of those users. Perhaps the new disclosure framework would be a good place to articulate this concept, perhaps to the extent that the footnotes begin with a statement as to who the primary users are.

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Additional comments. Please provide any additional comments on the proposed Update or any comments on this electronic feedback process below.

With respect to paragraph 1.10. This comment is troubling. One of the goals of the FAF is to provide appropriate differential options for private companies that still will be considered GAAP. This comment here sounds too much like the requirements in the audit standards with respect to OCBOA statements. We strongly disagree with the need for such a disclosure. Users should be able to make judgements based on information in the accounting policy disclosures.

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