

Please note that the comments expressed herein are solely my personal views

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- **File Reference No. 2012-230**
- **Private Company Decision-Making Framework**
- **A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies**

Dear Sir.

Thank you for giving us the opportunity to comment on your Discussion Paper: Private Company Decision-Making Framework; A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies.

Framework

The Private Company Council (PCC) was established by the Financial Accounting Foundation (FAF) with two primary goals: first, to determine whether exceptions or modifications to existing non-governmental US GAAP are required to address the needs of users of private company financial statements; and second, to serve as the primary advisory body to the Financial Accounting Standards Board (FASB) on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.¹ This discussion paper describes the FASB staff's recommendations on how the FASB and PCC should apply the draft private company decision-making framework. The FASB staff have identified six significant factors² that differentiate the financial reporting considerations of private companies and public companies, and seek feedback on five areas³ where financial accounting and reporting guidance might be different for private and public companies.

¹ See Establishment of the Private Company Council, FAF, May 2012, available at: <http://www.accountingfoundation.org/home>

² Types and number of financial statement users, access to management, investment strategies, ownership and capital structures, accounting resources and learning about new guidance.

³ Recognition and measurement, disclosures, presentation, effective date and transition method.

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Answers to other specific questions raised by the FASB

Question 1:

I have worked as preparer and user of financial statements (user), and I have also carried out ad hoc internal auditing for various entities. My primary business is financial and other services.

Question 2:

Yes, the FASB staff have identified and focused on the appropriate differential factors between private companies and public companies.

Question 3:

Yes, I agree that the FASB staff's 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.

Question 4:

In general I oppose industry-specific guidance on principle. However, I 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. This would increase consistency and clarity of financial reporting, and would be less confusing to users.

Question 5:

I agree that 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. I also agree that the disclosure area of the framework appropriately describes the red-flag approach often used by users when reviewing private company financial statements. However, paragraph BR44 is rather vague and subjective in terms of content. It states that: "under a red-flag approach, some information in the notes can be limited to basic information necessary to facilitate a user's review and to allow a user to identify appropriate follow-up questions to present to management. However, in evaluating the benefits and costs of providing disclosure exceptions or modifications, the Board and the PCC should consider whether the remaining disclosure requirements in a particular area would provide typical users of financial statements with enough information to facilitate an effective red-flag approach."⁴ I would ask for some more clarity on how this procedure would be expected to work in practice.

Question 6:

Regarding recognition and measurement, the general principle is that similar economic transactions should be reported consistently between different entities, and ownership and capital structures. Within this, I would agree that the FASB staff have identified the appropriate questions for the FASB and the PCC to consider in the recognition and measurement area of the framework. Decisions regarding recognition and measurement should be based on the quality, relevance, cost and complexity of the reporting.

⁴ Please see paragraph BR44 of the Discussion Paper.

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Question 7:

Yes, the FASB staff have identified the appropriate areas of disclosure focus by private company financial statement users for the FASB and the PCC to consider.

Question 8:

I strongly agree that private companies should apply the same display guidance as public companies. Any differences in presentation could cause misunderstandings and confusion.

Question 9:

I suggest that it would be a reasonable compromise if private companies would be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance. In such cases, I 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.

Question 10:

Yes, I agree with the FASB staff's recommendation that some circumstances may warrant consideration of different transition methods for private companies. In general, I would suggest that the prospective method should be used for private companies, as this is easier and less costly to implement.

Question 11:

I broadly agree with the basis for the FASB's tentative decisions reached to date about which types of companies should be included in the scope of the framework. I would not support including financial institutions that otherwise meet the characteristics of a private company in the definition of private company for all financial reporting purposes. Given their unique nature, I would rather support a tailored approach that would ensure the quality and relevance of information provided to financial statement users for such institutions.

Yours faithfully

C.R.B.

Chris Barnard