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Ms. Susan M. Cospers
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31 October 2012

**Re: Invitation to Comment: Private Company Decision-Making Framework,
A Framework for Evaluating Financial Accounting and Reporting Guidance for
Private Companies (File Reference No. 2012-230)**

Dear Ms. Cospers:

As the auditor of over 3,000 private entities, we appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment (ITC) on a Private Company Decision-Making Framework, *A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*.

We support the use of a framework to help the Private Company Council (PCC) and the FASB make decisions about whether and when to modify the requirements of accounting standards for private companies. We also support making certain accommodations for private companies. However, we believe the Board should not develop a separate version of US GAAP for private companies because that may confuse users and other stakeholders and could be a barrier for private companies that want to participate in the capital markets. We therefore believe recognition and measurement generally should be the same for private and public companies, and the Board should focus on disclosure and transition relief for private companies.

As the FASB staff noted in the ITC, a key difference between public and private companies is the access users have to management. Given their greater access to private companies, users often are able to obtain additional details about the amounts in the financial statements. Therefore, private companies should be allowed to make fewer disclosures in the notes to the financial statements than public companies. This could reduce the burden of financial reporting for private companies.

The FASB staff observed in the ITC that transition to new accounting standards can be especially challenging for private companies. We believe the PCC and the FASB can reduce the burden on private companies by allowing (1) adoption of new standards at the end of the annual period rather than in an interim period, (2) modified retrospective transition, instead of a full retrospective transition, and (3) at least an extra year for transition when appropriate.

If private companies were to be provided substantive disclosure and transition relief, the PCC and the FASB should be in a position to maintain the current alignment of recognition and measurement. This alignment should mitigate the risk of creating two GAAPs.

The Board often is questioned about the costs and benefits of its standards and disclosures required in the notes to the financial statements. The Concepts Statements include the notion that the Board consider the costs and benefits of any standards, including requirements for notes to the financial statements, before issuing them. We believe the Board should describe more clearly in future standards its due diligence and decisions about the costs and benefits of a proposed new standard or required note disclosure. The Board should adopt only standards or note disclosures that the Board determines to be cost effective as explained in the final accounting standards update.

The framework includes many presumptions that would have to be overcome if the PCC and the Board give private companies relief that is aligned with the framework. We recommend these presumptions be removed to allow the PCC and the FASB to use more professional judgment to decide when to provide relief to private companies.

In the ITC, the FASB staff observed that many of the concerns of private companies also are concerns of public companies. The FASB has indicated that solutions to private company concerns that can be applied more broadly will be applied more broadly. We applaud the FASB for this open-minded approach. We encourage the Board to consider whether each private company accommodation can be extended to public companies.

We believe that a single, straightforward definition of a nonpublic entity should be developed and consistently used in existing accounting standards as well as in all future standard-setting activity.

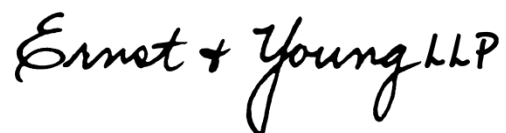
Appendix 1 provides additional details about our rationale for our summary above. In Appendix 2, we provide our responses to the Board's specific questions in the ITC.

Overall, we believe the FASB's efforts and the initial recommendations for a private company decision-making framework are steps toward helping ease the financial reporting burden on private companies. We also continue to fully support the FASB, with the input of the PCC, as the standard setter for US GAAP for private companies.

* * * * *

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Very truly yours,

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Appendix 1 provides additional detail about our rationale for our comments regarding the framework set forth in the cover letter.

Limit recognition and measurement differences to mitigate a two-GAAP system

As we stated in our cover letter and our previous comment letter on the Plan to Establish the Private Company Standards Improvement Council, we believe a two-GAAP system may confuse financial statement users. Financial statements of public and private companies would not be comparable. Some private companies might choose not to follow the new regime because of concerns about the potential perception that the “private” GAAP would be inferior to “public” GAAP, the need to amend agreements that include covenants based on public GAAP, or the possibility that the entity would be required to convert to public GAAP if it went public or had a change in control. This lack of comparability could in fact harm the very companies that this proposal seeks to benefit.

Accordingly, we continue to believe the threshold for allowing different recognition and measurement for privately held companies should be high and should result in a modest number of exceptions. For example, we continue to support the use of a “calculated value” to determine volatility in the calculation of the fair value of share-based compensation because private companies do not have quoted market prices that can be used in the calculation. When differences are permitted, we believe that preparers should be allowed to select the recognition and measurement differences they, in their judgment, believe are appropriate.

Minimize disclosure requirements

Paragraph OB5 of Statement of Financial Accounting Concepts No. 8 states that general purpose financial reports are directed to users who “cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need.” However, a key differentiator between public and private companies is the access to management described in paragraphs DF4 and DF5 of the ITC.

Given their greater access, users of private company financial statements often are able to obtain additional details. Preparers of private company financial statements also are not subject to the strict fair disclosure requirements that apply to public companies; therefore, it is easier for them to respond to users’ inquiries.

The staff’s research also provides support from users of private company financial statements to minimize disclosure requirements. The staff noted in paragraph BR33 of the ITC that both users and preparers noted “it is often unnecessary to require private companies to disclose the same level of detail required in public company financial statements.” Paragraph BR52 of the ITC describes “input from private company users ... that cluttered financial statements sometimes result in confusion and may shift the focus away from areas of greater importance.” As noted in paragraph BR38 of the ITC, “users of private company financial statements said that mandatory and extensive disclosure requirements have resulted in notes that often do not capture the information that is most relevant to their decision making.”

Based on these considerations, the number of mandatory disclosure requirements in the explanatory notes to the financial statements for private companies can and should be less than what is required for public companies.

Provide liberal transition to give private companies the necessary time to apply new standards

The FASB staff observed in the ITC that transition to new accounting standards can be especially challenging for private companies. Paragraphs BR56 and BR57 of the ITC acknowledge that, in recent years, the following considerations have been the basis for the Board providing a one-year deferral of effective dates and providing for adoption at the end of the annual period, rather than in interim periods, for private companies:

- a. The typical periodic timing of the learning and education cycle for preparers of private company financial statements and many of their public accountants
- b. The ability of private companies and their public accountants to learn from the earlier implementation experiences of public companies
- c. The availability of, and competition for, third-party resources to assist in implementing new guidance
- d. The lead time necessary to provide instructors and material for training a large and broadly distributed audience of private company financial statement preparers, public accountants and users.

Further, as noted in paragraph BR67 of the ITC, since preparers of private company financial statements have relatively fewer resources, “they incur relatively higher costs than public companies to modify systems, maintain parallel accounting records, and engage public accountants and other external professionals to implement amendments using a retrospective method of adoption.”

We commend the FASB for its efforts in providing transition relief to private companies in recent years and believe the PCC and the FASB can build on those efforts in the area of transition by allowing (1) adoption of new standards at the end of the annual period rather than in an interim period (2) modified retrospective transition, instead of a full retrospective transition, and (3) at least an extra year for transition when appropriate.

Increase transparency of cost-benefit analysis

The Board often is challenged about the costs and benefits of its standards and disclosures in explanatory notes to the financial statements. The following paragraphs of Statement of Financial Accounting Concepts No. 8 include considerations related to “The Cost Constraint on Useful Financial Reporting”:

- QC35. Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important

that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

QC36. Providers of financial information expend most of the effort involved in collecting, processing, verifying, and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analyzing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

QC37. Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender and other creditor also receive benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

QC38. In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed financial reporting standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

QC39. Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

We believe it would be helpful if the Board more clearly described in future standards its due diligence and decisions about the costs and benefits of a proposed new standard or explanatory note disclosures. It is important that both preparers and users have an active role in this determination. The Board should adopt only standards or explanatory note disclosures for which the Board can determine and explain that the benefits outweigh the costs.

Remove presumptions from the framework

The framework includes many presumptions to be overcome for the PCC and the Board to give private company relief that is aligned with the framework. Presumptions are included in several areas of the framework such as the presumption discussed in recognition and measurement, disclosure, and display that industry-specific guidance is relevant to both private and public company financial

statement users and a presumption described in paragraph 3.1 of the ITC that information important enough to be presented on the face of the financial statements is relevant to most financial statement users. We recommend the presumptions in the framework be removed to encourage the PCC and the FASB to use more professional judgment when deciding whether to provide relief to private companies.

We have observed that the staff has recommended that certain exceptions or modifications in the areas of recognition and measurement (paragraph 1.10), display (paragraph 3.1) and transition method (paragraph 5.3) could potentially be supplemented by additional disclosures. Further, the staff recommends in paragraph 2.9 of the ITC that the PCC and the FASB consider whether there are additional disclosures, not currently required, that would be relevant to users of private company financial statements. We generally do not support additional disclosure requirements because we believe that would offset the benefits of applying an exception or modification.

Consider broadly the advice of the PCC

In the ITC, the FASB staff observed that many of the concerns of private companies also are concerns of public companies. The FASB staff stated in paragraph BR28 of the ITC that public companies are concerned "about what they perceive to be burdensome costs and complexity" of current accounting guidance. Paragraph BR46 of the ITC indicates that "the cost and complexity of complying with disclosure requirements can also be challenging for public companies" and paragraph BR38 of the ITC indicates that public company financial statement preparers and users have observed, consistent with private companies, that "mandatory and extensive disclosure requirements have resulted in notes that often do not capture information that is most relevant to their decision making."

As previously discussed, the FASB has indicated that solutions to private company concerns that can be applied more broadly will be applied more broadly. We applaud the FASB for this open-minded approach. We encourage the Board to consider whether each private company accommodation can be extended to public companies.

Responses to the Questions for Respondents in the Invitation to Comment: Private Company Decision-Making Framework, A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies

This Appendix includes our responses to questions addressed to all respondents or specifically to auditors. We have not responded to questions addressed only to preparers or users.

Question 1: Please describe the individual or organization responding to this Invitation to Comment.

- a. 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.
- b. 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.
- c. 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.
- d. 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.

Ernst & Young LLP is one of the largest firms auditing privately held, as well as publicly held, entities. We currently audit approximately 3,000 private entities, ranging from small family-owned and start-up enterprises to large privately held multinational corporations.

Question 2: 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.

The differences identified by the staff are reasonable, although others might exist. For example, some believe the size of the organization also is relevant to decision making about accommodations.

A number of the considerations that drive these differences also apply to public companies. For example, the FASB staff stated in paragraph BR28 of the ITC that public companies are also concerned "about what they perceive to be burdensome costs and complexity" of current accounting guidance. Paragraph BR46 of the ITC indicates that "the cost and complexity of complying with disclosure requirements also can be challenging for public companies," and paragraph BR38 of the ITC indicates that public company preparers and users have observed, consistent with private companies that "mandatory and extensive disclosure requirements have resulted in notes that often do not capture information that is most relevant to their decision making."

Paragraph DF3 of the ITC states that private company users “focus on cash-adjusted earnings from operations (earnings before interest, tax, depreciation, and amortization [EBITDA], with some additional noncash adjustments).” The focus on EBITDA by private company financial statement users is discussed throughout the framework. The framework acknowledges that public company equity investors and analysts also may focus on EBITDA. We believe other users of public company financial statements often focus on EBITDA as well. In addition, debt covenants for public companies often include an EBITDA criterion.

Question 3: 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?

We support the Board’s plan to establish a framework to help the FASB and the Private Company Council (PCC) make decisions on whether and when exceptions to US GAAP should be made for private companies. We believe a framework is important to maintain consistency and transparency in the process. However, we believe removing the many presumptions included in the ITC may encourage the PCC and the Board to exercise more professional judgment in their decision-making process as discussed in Appendix 1.

We recognize that the FASB has exerted considerable effort to determine whether the benefits of reporting financial information are justified by the costs incurred to report such information and the notion of those efforts is included in the Concepts Statements. We believe that greater transparency of the Board’s cost-benefit analyses would add credibility to its decisions.

Question 4: 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?

We would understand if the PCC and the Board concluded that private companies should apply the same industry-specific guidance as public companies.

Question 5: 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?

Paragraph OB5 of Statement of Financial Accounting Concepts No. 8 states that general purpose financial reports are directed to users who “cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need.” As the FASB staff noted in the ITC, a key difference between public and private companies is users’ access to management. Given their greater access, users of private company financial statements often are able to obtain additional details.

We believe this management access, as well as the staff's observation that users often believe the extent of disclosures can be reduced as discussed in paragraph BR33 of the ITC, support a reduced volume of disclosure. A private company could always provide disclosures beyond the minimum requirements, if desired.

Therefore, private companies should be allowed to present fewer disclosures in the explanatory notes to the financial statements than public companies. This could reduce the burden of financial reporting for private companies. The Board also may reduce the burden by allowing for transition relief as discussed in Questions 9 and 10. If private companies were to be provided substantive disclosure and transition relief, the PCC and FASB should be in a position to maintain the current alignment of recognition and measurement. This alignment should mitigate the risk of creating two GAAPs.

Identifying and understanding the needs of typical users of private company financial statements is critical to the effectiveness of the framework. We believe that when considering specific modifications or exceptions to US GAAP for private companies, the PCC and the Board should continue to include both preparers and users in the decision-making process.

Question 6: 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?

We believe that recognition and measurement guidance generally should be the same for public and private companies as discussed in Appendix 1.

Question 7: 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?

The Board and the PCC should refer to responses from users.

Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?

We agree that private companies generally should apply the same display guidance as public companies.

Question 9: 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?

We agree with the staff recommendations in paragraph 4.1 of the ITC that "generally, the amendments in an Accounting Standards Update should be effective for private companies one year

after the first annual period for which public companies are required to adopt them” and in paragraph 4.2 of the ITC that “amendments for private companies should be effective first for annual periods and then for interim periods thereafter.” This is appropriate because of learning and resource limitations discussed throughout the framework. For certain more complex or pervasive accounting changes, it might be advisable to delay private company transition until after a post-implementation assessment of the adoption by public companies.

Question 10: 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?

We believe that if a public company is required to use a full retrospective transition method, permitting a private company to use a modified retrospective method would be sufficient to address any concerns about comparability. Further, we believe, in many instances, a prospective method may be appropriate.

Question 11: 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?

We believe that a single, straightforward definition of a nonpublic entity should be developed and consistently used in existing accounting standards as well as in all future standard-setting activity.

We believe outreach to the not-for-profit community on whether not-for-profit organizations should fit into the scope of the framework is important.

If the Board goes forward with its current complex definition of a nonpublic entity, for entities that are not within the scope of this framework (e.g., employee benefit plans), a statement clarifying whether excluding them indicates that they are considered public companies might be helpful. We assume an employee benefit plan would not be considered a public company.

Question 12: 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.

As noted above in question 11, we believe outreach to the not-for-profit community on whether not-for-profit organizations should fit into the scope of the framework is important.

Question 13: Some users of private company financial statements stated that they prefer an *all or nothing* approach of applying recognition and measurement differences to achieve consistency within a private company's financial statements and promote comparability among the financial statements of private companies that choose to apply all exceptions and modifications provided under the framework. Those users indicated that such an approach would reduce the confusion that they may experience if private companies are allowed to select which differences they wish to apply. The users acknowledged that the extent of that confusion will depend on the number of recognition and measurement differences that are ultimately permitted and the nature of those differences. However, most of the users stated that they do not object to allowing private companies the option of applying some, none, or all of the permitted differences in disclosure, display, effective date, and transition method guidance.

Most preparers of private company financial statements acknowledged the concerns of some users, but stated that preparers should be allowed an option to select the differences provided under the framework that they wish to apply. Those preparers pointed to the possibility that not every permitted difference in recognition and measurement guidance may provide the most relevant information to users of their financial statements or for the companies operating in their industry. Some preparers also shared concerns about being required to make an initial commitment to apply all future differences permitted under the framework without knowing the nature or volume of the recognition and measurement differences that the Board and the PCC may ultimately provide.

- a. 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.
- b. 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).

We believe that recognition and measurement guidance generally should be the same for public and private companies. However, for all accommodations, we believe that preparers should have the option to select the differences that they wish to apply in all areas of the framework. This would allow, for example, a company that is planning an initial public offering to follow public company guidance and avoid making changes in future financial statements.