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October 31, 2012

Technical Director
Financial Accounting Standards Board
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Via email to director@fasb.org

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

Dear Technical Director:

We appreciate the opportunity to respond to the Financial Accounting Standards Board's (FASB) Invitation to Comment on the *Private Company Decision-Making Framework—A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies (Discussion Paper or Framework)*. We commend the FASB staff for preparing this Discussion Paper and we are supportive of the Board's efforts to address the differing needs of users of private company financial statements as compared to users of public company financial statements. Our responses to the "Questions for Respondents" posed in the Discussion Paper follow.

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

Crowe Horwath LLP is one of the largest public accounting and consulting firms in the U.S. serving both private and public companies. We have approximately 2,600 personnel and over 250 partners. We are one of the nine U.S. firms currently inspected annually by the Public Company Accounting Oversight Board, and are an independent member of Crowe Horwath International which includes more than 150 independent accounting and management consulting firms with offices in more than 100 countries around the world. Our audit practice focuses on both private and public companies.

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.

We believe that the six differential factors identified by the staff are appropriate.

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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 believe that the staff recommendations result in a framework that would lead to decisions that would provide relevant information to users of private company financial statements in a more cost-effective manner.

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 agree that private companies subject to industry-specific accounting guidance should continue to apply industry-specific accounting guidance that public companies are required to follow.

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?

We agree that the different areas of the Framework appropriately describe and consider the primary information needs of the majority of private company financial statement users. Except as described in the next sentence, we believe the disclosure area of the Framework appropriately describes the red-flag approach often used by users when reviewing private company financial statements. However, we do not agree that the red-flag approach should be considered when determining the need for note disclosures relating to areas that involve a significant degree of judgment, such as contingencies. In situations such as this we do not believe that one could readily assume that users of private company financial statements would have sufficient previous knowledge of commitments and contingencies to engage with management on such matters if only a minimal amount of disclosure was required. Further, general purpose financial statements often have multiple users and not all users will have the same ability to access management.

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 the questions identified in the Framework are appropriate questions for the Board and PCC to consider in the recognition and measurement area of the framework.

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?

We believe the questions identified in the Framework are appropriate areas of disclosure focus by private company financial statements users for the Board and the PCC to consider in paragraph 2.8. Given the objectives of the overall purpose of the PCC, it is not clear why the Framework would also consider whether private companies should provide additional disclosures beyond those required by public

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companies in paragraph 2.9. This appears counterintuitive to the notion of reducing the cost of preparing private company financial statements. Further, it is not clear why private companies would require additional disclosures that would also not be useful for public companies in the two examples described in paragraph 2.9. The nature of tax sharing agreements and distributions to owners are equally important to public companies.

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

Not unlike the staff, we believe in general, that private companies should apply the same display guidance as public companies. Though there may be some instances where differences may be warranted. For example, as the staff has pointed out in paragraph BR48, reclassifications from other comprehensive income to net income may not be relevant to private company financial statement users because such reclassifications do not affect reported cash amounts.

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?

Typically, private entities have fewer resources so it can be very beneficial to defer implementation of standards beyond the date for public entities; therefore we agree that private entities should be provided at least one an additional year deferral after the effective date for public companies. We believe that a private company should have the option to adopt the amendments before the deferred effective date for private companies but not earlier than the required or permitted date for 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 agree with the staff's recommendation that some circumstances warrant different transition methods for private companies. We support the concept of prospective application being allowed for private entities in instances where full or limited retrospective application is required of public entities in-so-long as it is accompanied by adequate levels of qualitative disclosure requirements.

The questions to be considered by the PCC in paragraph 5.4 are appropriate in making such an evaluation; however, we do not recommend that a lower weighting should be given in such consideration to the cost and complexity questions included in paragraph 5.4d and 5.4e as indicated in the staff's conclusions. We believe the cost benefit consideration in the private entity financial reporting environment to be a very important factor given the time and resources necessary to compile information necessary to transition to a new accounting standard under a retrospective application.

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?

The Framework is critical around the definition of a private company; accordingly the Board's ongoing development of a single definition for the term private company is equally critical and important in

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determining which types of entities are included in the scope of the Framework. We have the following observations regarding financial institutions, employee benefit plans and not-for-profit entities.

Financial Institutions

We agree with the Board's reasoning in paragraph B14 that certain financial institutions should not be excluded from the definition solely on the basis of public accountability because that notion applies to many regulated industries which have regulatory bodies in place to protect stakeholders.

However, we recommend the Board define both "financial institution" and "depository institution" in the master glossary to the ASC. As the Board points out in the paragraph B13 of the Discussion Paper, the term "financial institution" is defined in paragraph 942-320-50-1 to include banks, saving and loan associations, savings banks, credit unions, finance companies, and insurance entities. However, there are other places in the ASC where the term "financial institution" is defined differently.

ASC 942-10-15-3

"For purposes of this Topic, financial institution (or institution) denotes a bank, credit union, finance company, mortgage company, or savings institution."

ASC 942-320-50-1

"For purposes of the disclosure requirements of paragraphs 320-10-50-1 through 50-3 and 320-10-50-5, the term financial institution includes banks, savings and loan associations, savings banks, credit unions, finance companies, and insurance entities."

In the former reference, insurance entities are not included; the latter they are included. In the former reference, mortgage companies are included; in the latter, mortgage companies are excluded. In addition, there are minor terminology differences. The former reference uses the term savings institution, while the latter uses the terms savings and loan associations and savings banks. In addition to defining the definition in the master glossary, we recommend the existing references to "financial institutions" throughout the ASC be conformed to one standard definition. Consistent with the Board's reasoning on regulated entities, distinguishing whether an entity is subject to regulatory oversight from a financial reporting perspective, rather than consumer compliance for example, could be a feature for defining a financial institution.

We also recommend the board define the term depository institution, in the master glossary, as that term is used in paragraph 942-10-15-2b. The term "depository institution" also has a suggested definition at ASC 942-10-15-2b:

- b. Depository institutions insured by either:
 - 1. The Federal Deposit Insurance Corporation's (FDIC's) Bank Insurance Fund or Savings Association Insurance Fund
 - 2. The National Credit Union Administration's National Credit Union Share Insurance Fund.

The entities covered by 942-10-15-2(e), (f), (g) and (i) also appear to be depository institutions as well.

- e. Branches and agencies of foreign banks regulated by U.S. federal banking regulatory agencies
- f. State-chartered banks, credit unions, and savings institutions that are not federally insured
- g. Foreign financial institutions whose financial statements are purported to be prepared in conformity with accounting principles generally accepted in the United States
- i. Corporate credit unions.

The Board could then incorporate the definition of a depository institution as part of the definition of financial institutions as follows: all depository institutions plus other entities, albeit insurance entities, mortgage companies and finance companies.

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Employee Benefit Plans

We agree with the Board's conclusion that an employee benefit plan is not a private company based on their unique characteristics. Furthermore, we concur there should be no differentiation between an employee benefit plan that is sponsored by a private company from an employee benefit plan that is sponsored by a public company.

However, we recommend that the Board reconsider some of the existing "non-industry" specific accounting guidance applicable for employee benefit plans. As the Board has pointed out, employee benefit plans follow accounting guidance that is often tailored to the unique nature of the plans; however, that is not always the case. As the Board has noted, the needs of users of employee benefit plan financial statements are specific and more focused than the needs of financial statement users of both public companies and private companies and those needs are addressed by the industry specific guidance in Topics 905-995 of the ASC. In particular, we have observed some of the fair value disclosures are overly burdensome for preparers without seemingly providing much benefit to the users who are plan participants. For example, the requirement to disclose the fair value hierarchy level for those instruments that are disclosed at fair value but not measured at fair value. As such, we encourage the Board to reconsider the required disclosures to ensure alignment with those specific and more focused needs of the users.

Not-for-Profit Entities

We also acknowledge that not-for-profit (NFP) entities have initially been excluded from the scope of the private company decision-making Framework, as we understand the Board is separately deliberating the treatment of NFP entities, including NFP conduit bond obligors, in a second phase of the project. We believe that NFP entities should be included in the scope of the Framework. Industry specific guidance related to NFP entities is included in ASC Topic 958 with the primary objective being the enhancement of the relevance, understandability, and comparability of NFP financial statements to meet the common needs of the external users of those statements. As such, if NFP entities were to be included in the scope of this Framework we believe they would likely benefit from some of the differences that are certain to be created between public and private companies while retaining the industry specific guidance that enhances the relevance, understandability, and comparability of such financial statements.

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.

See our response to Question 11 above.

Question 13: The staff acknowledges the importance of the decision to be reached by the Board and the PCC on whether to require a private company that elects to apply any difference in recognition or measurement guidance provided under the framework to apply all existing and future differences in recognition and measurement guidance. Below, the staff has included some initial observations raised by a limited number of stakeholders about this topic. The staff is seeking to obtain broader input to help inform the Board and the PCC as they further assess the implications of this decision.

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

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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.

We do not believe that a private company should be required to apply all existing and future differences in recognition and measurement guidance. By allowing a private company to decide which recognition and measurement differences to apply will allow private companies the flexibility in preparing financial statements that are most relevant to the users of its financial statements. The side by side comparison of private companies via the use of their audited financial statements is an infrequent occurrence so comparability is, more often times than not, irrelevant.

- 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).

For the reasons expressed in 13(a) above, we believe that a private company should have the option to choose which differences it applies in all other areas of the Framework. Further, we believe this option should be explicitly provided in either the Framework or ASC.

* * * * *

Thank you for the opportunity to provide our comments on the Discussion Paper. Should you have any questions please contact James A. Dolinar at (630)574-1649 or Scott G. Lehman at (630)574-1605.

Sincerely,

Crowe Horwath LLP

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