



November 8, 2012

Technical Director
Financial Accounting Standards Board
File Reference No. 2012-230

RE: Invitation to Comment: *Private Company Decision-Making Framework*

The Accounting and Auditing Committee of The Ohio Society of CPAs appreciates the opportunity to respond to the Board's Invitation to Comment.

In general, we support the efforts of the FASB staff in establishing the draft private company decision-making framework. As a whole, we believe the draft framework is appropriate, significantly complete and cost effective. We applaud the efforts of the FASB staff in developing the framework with the primary goal to identify differential informational needs of users of private companies and to reduce the costs and complexity of reporting compliance for private companies. We believe the work of the FASB staff to date that has led to the draft framework and the current comment process will provide the Board and the Private Company Council (PCC) with the necessary input to develop the decision-making framework.

Specific Question Responses:

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

The Ohio Society of CPAs Accounting and Auditing Committee is comprised of CPAs employed in both business and public accounting, representing entities of various sizes, industries and capital structures.

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.*

Yes, we agree with the differential factors identified.

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?*

Yes. The committee had no additions to recommend.

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 the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?*

No, we do not agree with the presumption that industry-specific accounting guidance is always relevant to the financial statement users of both public and private companies. In many cases, we agree that it should be presumed that industry-specific recognition and measurement guidance should be the same for both private and public companies. However, we believe that there are instances where there are disclosure-related differential industry-specific informational needs of financial statement users for private companies.

For example, financial institutions are being required to disclose a significant amount of additional risk related disclosures (credit risk, liquidity risk, etc.) in the GAAP financial statements. For the large public financial institutions, this information may be relevant to users of the financial statements that don't have easy access to management. However, for the smaller private community financial institutions, the primary users are the small group of equity owners and regulators. Both of these groups have access to management and information outside the GAAP financial statements. The regulators are regularly inspecting the financial institutions, reviewing their risks factors, and providing an assessment of these risks to management and the equity owners. The requirement to have extensive GAAP financial statement disclosures related to these risks does not provide any new or additional information that the primary users don't already have access to.

There are other examples of these disclosure related differential information needs, such as in the oil and gas industry. FASB ASC 932 currently has certain requirements for all oil and gas companies, but additional required disclosures for publicly traded companies, such as the standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities. Lenders to private companies often rely on their own calculations based on production data provided directly by the companies instead of company disclosures.

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? If not, why?*

Yes, in general, we believe the framework appropriately addresses the primary information needs of users of private company financial statements and the ability of those primary users to access management. In general, we support the *red-flag approach* concept as described in the framework. We believe that most primary users (lenders and equity owners) of private company financial statements do have the ability to directly access management to obtain additional information beyond what is included in the GAAP financial statements. In these situations, extensive disclosure requirements become more of an act of reporting compliance than providing additional insight to the primary users. As such, we support the concept of limited disclosures for the purposes of providing the primary users enough information to facilitate the *red flag approach* to validate previous knowledge and expectations and/or to engage in a more focused dialogue with 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?*

Yes, we agree that the staff has identified the appropriate questions to be considered.

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?*

Yes, we agree that the areas identified by the staff are fair and are an appropriate set of circumstances to provide a good starting point to consider different disclosures by public companies.

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

Yes, in general we agree that there should not be major differences in display guidance. However, we believe there may be situations that warrant differences as there could be display guidance that may not be relevant to the financial statement users of private companies. We support the framework views on display to allow for the consideration of different display guidance if warranted. As an example, if there was a significant change in display guidance for the statement of cash flows, we believe it is appropriate to consider the differential information needs of financial statement users of private 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 recognize the importance and the desire for the private company deferral period; however making the generalization that the one year delay is the preemptive conclusion may not be in the best interests of standard setting. If the general understanding becomes that private companies have an extra year to implement accounting standards then it would seem that anytime there is a desire to implement a standard simultaneously it would be viewed as an exception to general practices and a potential cause for conflict. We believe that it would be better to presume that standards should be implemented simultaneously with the understanding that more complex standards may be implemented on a delayed basis. We believe this is a more positive approach for constituents.

We do believe it is appropriate that the more complex and potentially more costly to implement standards should allow private companies a deferred effective date. This will allow them and their advisors an opportunity to better understand the manner in which the standards are being implemented in the general market place. We do not believe that this exception would create material issues for the users of private company financial statements especially given the "red-flag" approach.

We also agree that the option to adopt amendments early should exist. Certain standards may have a material impact on a company and individual entities are better served to determine whether or not that situation exists. However we also agree that under no circumstance should a private standard be adopted earlier than the required date for public companies. We believe this would cause potential confusion to users of financial statements.

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 that both some circumstances may warrant consideration of different transition methods for private companies and that the staff has identified the appropriate considerations to evaluate.

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? If not, why?*

We partially agree with the Board's tentative decisions about the types of companies that should be included in the scope of the framework. In considering the Board's tentative decisions and formulating our responses, we evaluated the types of companies considered using the six significant factors in the framework that differentiate the financial reporting considerations of private and public companies.

Conduit Bond Obligors – Conduit bond obligors have become a diverse set of borrowers and should not all be considered public entities. We agree with general view of the framework that the relevance to users and cost/complexity must be considered to determine if the public-company disclosures should be required. Bond issuances by non-profit entities can currently qualify as conduit bond obligors. However, these bonds are often purchased by a single financial entity who is familiar with and has access to the non-profit entity. These purchases are made without placing the bonds on a public market. Generally, we do agree that the size of the bond offering should not determine its accounting treatment, assuming the bond offering is a material amount. We believe that the alternative defining private companies as those that are not required to comply with SEC Rule 15c2-12, Municipal Securities, is a good start as it excludes immaterial bond amounts and offerings with limited "public exposure".

Employee Benefit Plans – For employee benefit plans, we agree that they have unique characteristics and there could be a larger number of potential users (participants) that may not have full access to plan financial information. The only other significant user is the Department of Labor. We believe the financial reporting needs of these primary users vary greatly from the needs of a user of a typical public company. For example, industry guidance for plan accounting requires extensive fair value disclosures similar to those of companies. The extensive fair value disclosures required for a plan's investments may not be as relevant to the primary users of the plan financial statements. In many cases, the plan financial statements are prepared on a limited-scope basis as permitted by regulators. As such, there are limited audit procedures performed over investments but the disclosures still require significant amount of effort to comply with the fair value disclosure guidance. The cost of requiring these extensive disclosures for plan financial statements significantly outweighs the benefits for an item that we believe is not significantly relevant to the primary users. As such, although it might be appropriate, if employee benefit plans are going to be excluded from the private company disclosure framework, we believe the Board should strongly consider enhancing certain aspects of the industry-specific disclosure guidance that would more appropriately respond to the financial reporting needs of the primary users of employee benefit plan financial statements.

Financial Institutions – For financial institutions, we support the Board's tentative conclusions that they should not be excluded from the definition of a private company unless they have other

characteristics that would scope them out (i.e., issuing securities in a public market). We agree with the Board's preliminary views to not exclude financial institutions from the framework on the basis of the notion of public accountability as we agree that this notion should not be a factor in determining if an entity is considered private for financial reporting purposes. As discussed earlier, we believe that there are areas of financial reporting for industry-specific guidance where the needs of the primary financial statement users could differ between a public and private financial institution. We do not perceive there being significant differences in issues of recognition and measurement, but rather the extent of disclosures. As such, we do not perceive there to be a high risk that regulators would not accept financial statements with some differential disclosure guidance.

Subsidiaries/Parent Companies – We agree that a private company that is either a subsidiary of or a parent of a public company should be permitted to follow the private company accounting requirements. Some subsidiaries of public companies are required to prepare their own financial statements to provide to lenders of debt for that subsidiary. The subsidiary's relationship to their lender is similar to other private-companies and their lenders, so they should be able to follow the same private-company accounting requirements. The public-company parent can determine if it is cost effective for that subsidiary to maintain two sets of accounting records, private and public-company, or not. The larger the subsidiary, the more likely the parent will want the subsidiary to follow public-company standards.

Private-company parent organizations should also be allowed to follow private-company regulations. Based on the size and complexity of the subsidiary, the parent or the users of the statements should be able to determine which set of standards the parent should follow.

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-B7 in Appendix B)? If yes, please explain.*

We agree that the second phase of this project on whether non-profit entities should be included in the scope of the framework is needed. There have been conversations that non-profits should be excluded from the private-company framework, because their donors need information in a similar manner to public shareholders. Unfortunately, non-profit entities are more varied than for-profit companies. Non-profit entities can range from holding \$1 billion in their endowment to \$100,000 of total assets. Some non-profits receive millions of dollars in contributions while others are not allowed to receive any charitable contributions. We believe that many non-profit entities should qualify for the private-company framework and welcome the Board's review on this topic.

QUESTION 13:

13 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 agree with an all or nothing approach as described above. The only logical benefit to such an approach would seem to be to achieve consistency in private company financial statements. This goal is unnecessary and in direct conflict with the premise for allowing private companies less disclosure and/or relief from applying certain standards as stated in the six significant differential

factors, including the types and number of financial statements users and access to management. Consistency becomes less of an issue in that environment; the user is making an individual assessment and presumably will understand the individual exceptions to general standards being made. Private companies that want to become public are in a specialized industry or that have public subsidiaries/parent may want to apply more public company standards.

13 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 effective dates and transition methods should generally be consistent. As discussed in #9, we stated that deferred effective dates could be beneficial to private companies in certain situations. It would not be in the best interest of standard setting to allow users wide latitude in this regard.

However, we believe there can be more latitude allowed on the issues of display and disclosure. In certain cases standards cite the need for an amount to be displayed “on a separate line” of the financial statements. We believe that entities should be allowed to determine the appropriate manner to convey the information if the display provisions outlined in the standard do not improve or enhance the financial reporting. We further believe that these differences already exist in practice.

In the area of disclosure we believe that the individual organization can better determine the most effective manner to convey the impact of the issue. Disclosure guidance and recommended approaches are important and useful to both financial statement preparers and users. Minimum disclosure guidance should be adhered to; however the preparers of private company statements should seek to disclose matters in an effective way that the users of the financial statements will understand. For example, reporting disclosures of an item or two in a sentence should be allowed instead of in a required tabular format.

We appreciate the opportunity to respond to the Invitation to Comment. If you have any questions about the deliberations of the committee, please contact me at dsteward@battellecpas.com.

Sincerely,



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The Ohio Society of CPAs