

MINUTES OF THE JUNE 25, 2020 PRIVATE COMPANY COUNCIL MEETING

Location: Virtual meeting; broadcast live on the FASB website

Meeting Date: Thursday, June 25, 2020

Starting Time: 10:30 a.m. EDT

Concluding Time: 1:30 p.m. EDT

PCC Members Present:

Candace Wright (Chair)

Zubin Avari

Timothy Curt

Jeremy Dillard

David Lomax

Michael Minnis

Holly Nelson

Richard Reisig

Dev Strischek

Yan Zhang

PCC Members Absent:

Frank Tarallo

FASB Board Members Present:

Russell Golden (Chairman)

James Kroeker (Vice-Chairman)

Christine Botosan

Gary Buesser

Susan Cospers (FASB – PCC Liaison)

Marsha Hunt

Hal Schroeder

Rich Jones (Incoming FASB Chairman)

FASB Staff Present:

Shayne Kuhaneck

Jeffrey Mechanick

Jenifer Wyss

Demi Fritz

Autumn Zobrist

*Chris Cryderman

*Aarika Friend

*Chris Bohdan

*Mary Mazzella

*Nick Japhet

*Chris Roberge

*David Yates

*Lucy Cheng

*Frazer Mulugeta

*Liz Gagnon

*James Starkey

FAF Representatives Present:

Diane Rubin, FAF Trustee

*For certain issues only.

Introductory Remarks

1. The PCC chair welcomed PCC members, FASB members, and FASB staff to the Council's June meeting, which was held virtually because of the COVID-19 pandemic.

Town Hall Update

2. The FASB staff provided a summary of upcoming PCC Town Hall and outreach meetings:
 - The PCC Town Hall to be held during the AICPA's 2020 Group of 400 (G400) Community Meeting in May was cancelled as a result of the conference being cancelled in its entirety.
 - The 2020 AICPA Engage Conference has been adjusted to an online-only event. In connection with the National Advanced Accounting and Auditing Technical Symposium (NAAATS) program to be held during the Engage Conference, a PCC Town Hall will be held virtually on July 22, 2020.
 - The FASB staff is planning user-focused outreach meetings, specifically with professionals in the surety industry. The surety outreach meeting is scheduled for September 8, 2020.
3. FASB staff also noted that the June 15, 2020, semi-annual FASB webcast, *IN FOCUS: FASB Update for Private Companies and Not-for-Profit Organizations*, had record attendance. The PCC Chair noted that presentations of this kind should continue to be used to alert stakeholders on PCC items.

PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards"

4. PCC and FASB members discussed the potential practical expedient that would allow a nonpublic entity to determine the current price input of equity-classified share-option awards using a valuation method performed in accordance with the presumption of reasonableness requirements of Section 409A of the U.S. Internal Revenue Code. At the April 2020 PCC meeting, the PCC unanimously agreed to delay the issuance of the proposed Update resulting from this Issue because many private company stakeholders were experiencing resource constraints and may have been unable to provide feedback at that time.
5. PCC members discussed when it would be best to issue the proposed Update for public comment. Certain PCC members expressed a desire to issue the proposed Update during a period in which private company stakeholders would have the time and resources to formally provide comments. PCC members decided that the proposed Update should be issued for public comment in August 2020. With a 45-day comment period, PCC members expect that comments on the proposed Update would be received by the end of September 2020. This, in turn, should afford staff the opportunity to summarize and analyze feedback in time for the December 3-4, 2020 PCC meeting.

FASB Accounting Standards Update No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities

6. FASB staff provided an update on the recent issuance of Update 2020-05. The Update permits private companies and nonpublic not-for-profit organizations that have not yet applied Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to do so for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. Under Update 2020-05, private companies and nonpublic not-for-profit organizations now are not required to apply the new leases standard, Update No. 2016-02, *Leases (Topic 842)*, until fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Public not-for-profit organizations that have not yet issued (or made available to issue) financial statements reflecting the adoption of the leases guidance may apply the standard for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all of these revised dates, early adoption is permitted.
7. PCC members expressed broad support for Update 2020-05 and the relief it provides to private companies. In response to a PCC member's question, the FASB staff noted that no comment letters were received from users expressing comparability concerns.

Distinguishing Liabilities from Equity

8. The FASB staff reminded the PCC members of this project's objective and scope and noted that the guidance in the forthcoming Update will be effective in 2022 for SEC filers excluding Smaller Reporting Companies (as defined by the SEC) and in 2024 for all other entities. Early adoption will be permitted for all entities for fiscal years beginning after December 15, 2020. Given the simplifying nature of the forthcoming Update and the opportunity to adopt the guidance early, the FASB staff asked PCC members how the FASB can create awareness among private companies of the Update's issuance and how the FASB can assist private companies with the implementation process.
9. PCC members suggested the following ideas for the FASB to consider as it engages in outreach and educational efforts related to the forthcoming Update:
 - a. Include information about the Update in the next semi-annual FASB webcast for Private Companies and Not-for-Profit Organizations
 - b. Provide information about the Update in FASB announcements, such as the FASB Action Alert emails
 - c. Leverage state CPA societies, Financial Executives International, and social media to disseminate information about the new guidance
 - d. Consider working with the AICPA's Center for Plain English Accounting to develop an article for publication.

Current Issues in Financial Reporting

10. PCC members discussed the following financial reporting issues arising as a result of current business conditions under the COVID-19 pandemic.
 - *Impairment of Nonfinancial Assets:* A PCC member observed that private companies may not be aware of the requirement to assess and recognize impairment of nonfinancial assets during interim periods. FASB staff are developing an educational document that will provide a broad overview of the impairment guidance and explain how to consider and evaluate triggering events. A PCC member noted that accounting standards are biased toward recognizing negative information in the financial statements and may not be balanced with later positive information. The FASB Chair noted that the impairment models require the use of judgment in evaluating triggering events and assessing recoverability before any quantitative testing is done. A PCC member suggested that COVID-19 has caused an artificial economic break that does not reflect an underlying entity-specific economic condition and causes additional complexity in forecasting and impairment testing. PCC members supported the educational document as useful to private companies.
 - *Debt Modifications and Troubled Debt Restructurings:* The PCC Chair noted that many private companies have recently received lender concessions for their debt arrangements but may not have experience in applying Subtopic 470-50, Debt—Modifications and Extinguishments, and Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors. FASB staff are developing an educational document to assist borrowers in applying the guidance in those two subtopics. FASB staff noted that the accounting conclusions of borrowers and lenders will not necessarily be symmetrical and briefly highlighted the guidance applicable to lenders in Subtopic 310-40, Receivables—Troubled Debt Restructuring by Creditors, the interagency guidance issued by banking regulators, and the provisions in the CARES Act. The PCC Chair asked the FASB staff if it had noticed any area of the guidance that could be simplified for private companies. The PCC Chair also suggested that in the current environment, 10 percent may no longer be an appropriate threshold for the quantitative tests. FASB staff noted that the evaluation of whether a borrower is experiencing financial difficulty is judgmental and that the relevance of troubled debt restructuring accounting has been raised as an issue by various stakeholders given the adoption of Update No. 2016-13—*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. PCC members noted that the educational document would be useful to both private companies and smaller public companies.
 - *Government Assistance & Related Disclosures:* The PCC Chair noted that because of concerns about proprietary information of private companies, the PCC historically has been hesitant about the FASB requiring disclosures of government assistance and asked whether the Board expected to provide further guidance on this topic. The FASB Chair observed that the AICPA has recently published question-and-answer guidance on accounting for Paycheck Protection Program loans. An FASB member noted that it would be inappropriate for the FASB to provide interpretive guidance on applying by

analogy IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. FASB members noted that financial statement users are more concerned about transparency of the amounts and classifications of government assistance as opposed to specific accounting principles. An FASB member asked whether auditors are being challenged by their clients over disclosure requirements. The PCC Chair suggested it may be too early to know whether that will be a problem.

- *Going Concern*: The PCC Chair and another PCC member observed that it would be helpful for the FASB to remind preparers that it is management's responsibility to assess an entity's ability to continue as a going concern. The FASB and PCC members discussed providing this reminder to preparers within the context of the client acceptance and engagement continuation process. The PCC Chair noted that in the current business conditions under the COVID-19 pandemic, forecasts, projections, and judgments are particularly difficult. An FASB member encouraged entities to provide financial statement users with transparent disclosures about the analyses performed and the judgments made as part of going concern assessments. PCC members discussed the importance of high-quality projections in an entity's going concern analysis.

Profits Interests and Their Interrelationship with Partnership Accounting

11. FASB staff provided an overview on profits interests. PCC and FASB members engaged in preliminary discussions on private company issues in accounting for awards of profits interests and their interrelationship with partnership accounting.
12. PCC members discussed scenarios in which there may be equal capital contributions by two partners, but disproportionate profit-sharing arrangements. PCC and FASB members discussed the challenges when identifying whether a profits interest is compensatory.
13. PCC members noted that defining the scope of arrangements that fall within profits interests will be an important consideration. One FASB member emphasized that PCC members should be clear about whether a potential project would create a separate accounting model versus identifying the Topic that should be applied to awards of profits interests.
14. PCC members discussed the challenge of valuing awards of profits interests. To comply with the tax definition, a profits interest has zero liquidation value when granted, but has a fair value that can be challenging to measure. One PCC member noted several challenges related to measurement when applying Topic 718, Compensation—Stock Compensation, to awards of profits interests. The PCC chair added that there might also be recognition and timing of recognition challenges.
15. PCC members discussed the tax benefits of profits interests and the increasing prevalence of such awards. Specifically, PCC members noted that profits interests are common as a form of compensation for private equity-owned companies. PCC members noted that there may not be a high demand from users for information about profits interests that is produced by applying today's guidance. One PCC member noted that in their experience,

the valuation of the profits interests is more difficult than determining whether there is a compensatory relationship.

16. PCC members discussed potential paths forward. One PCC member suggested the FASB provide educational resources on how to use the Codification in accounting for awards of profits interests.
17. PCC members requested that the FASB staff conduct research and outreach on the scope, definition, measurement, and recognition of awards of profits interests.
18. An FASB member discussed whether there is a need, if a practical expedient is identified, to understand how profits interests compare economically to out-of-the money or at-the-money stock options.

Concluding Comments

19. The PCC Chair recognized this as the final PCC meeting of the outgoing FASB Chairman, Russ Golden, whose term ends on June 30, 2020, and thanked him for his support of private companies and private company issues during his tenure.