

MINUTES OF THE SEPTEMBER 22, 2020 PRIVATE COMPANY COUNCIL MEETING

Location: Virtual meeting; broadcast live on the FASB website

Meeting Date: Tuesday, September 22, 2020

Starting Time: 10:00 a.m. EDT

Concluding Time: 12:32 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:

Rich Jones (Chairman)

James Kroeker (Vice-Chairman)

Christine Botosan

Gary Buesser

Susan Cospers (FASB – PCC Liaison)

Marsha Hunt

Hal Schroeder

FASB Staff Present:

Hillary Salo

Shayne Kuhaneck

Jeffrey Mechanick

Jenifer Wyss

Autumn Zobrist

Preston Lewis

*Mary Mazzella

*For certain issues only.

*Carolyn Warger

*Mackenzie Hitchcock

*Steven Whitman

*Chris Roberge

*Bobbi Gwinn

*Fungisai Chambwe

*Alyssa Mancini

*Chris Bohdan

*Alex Casas

*Lucy Cheng

*David Yates

*Samantha Tice

FAF Representatives Present as Observers:

Mary Barth, FAF Trustee

Diane Rubin, FAF Trustee

Introductory Remarks

1. The PCC Chair welcomed PCC members, FASB members, and FASB staff to the Council's September meeting, which was held virtually because of the COVID-19 pandemic. The PCC Chair recognized this as the first PCC meeting of the FASB Chairman, Rich Jones, whose term began on July 1, 2020.

Town Hall Update

2. The FASB staff provided a summary of recent PCC Town Hall and outreach meetings:
 - A two-part PCC Town Hall was held during the AICPA 2020 ENGAGE conference in July. PCC members, an FASB member, and certain FASB staff presented as part of the National Advanced Accounting and Auditing Technical Symposium (NAAATS) program. Feedback was received on several topics via polling questions, including on the PCC's proposed practical expedient for equity-classified share-option awards and on awards of profits interests. Sixty percent of participants indicated that the proposed practical expedient would provide a significant or moderate reduction in cost and complexity. The PCC Chair noted that this was an increase over the response from last year when the practical expedient was still being developed. Other polling questions focused on awards of profits interests. Seventy percent of participants indicated that private companies sometimes issue awards of profits interests. Participants indicated that issues in accounting for awards of profits interests include the measurement of the awards, determining whether to apply the guidance in Topic 710 or Topic 718, determining whether the award should be equity-classified or liability-classified (when applying Topic 718), and determining whether the award is compensatory. Furthermore, participants indicated that difficulties in accounting for awards of profits interests are primarily due to the complexity of the agreements associated with the awards and a lack of authoritative accounting guidance. A FASB member said that the Town Halls also provided a valuable opportunity to get feedback on current accounting issues stemming from the effects from the COVID-19 pandemic, such as accounting for Paycheck Protection Program (PPP) loans.
 - Several professionals from the surety industry participated in an outreach meeting held in September with certain PCC members, an FASB member, and certain FASB staff. The purpose of the meeting was to understand the surety industry participants' perspectives as users of private company financial statements. The surety industry participants provided insights about the type of financial information they receive from private companies on an interim and annual basis and about their access to management. The surety industry participants also provided feedback on accounting issues related to revenue recognition, leases, debt classification, and the effects from the COVID-19 pandemic. PCC members reported that the surety industry participants were engaged and provided insightful feedback. PCC members also noted that certain of the surety industry participants expressed interest in collaborating further with the FASB and PCC to educate other surety industry professionals on relevant accounting topics. A PCC member suggested that similar outreach meetings be scheduled in the future to monitor private companies' implementation of Topic 842 on leases.

3. The Risk Management Association (RMA) recently contacted the FASB staff to identify a date for an outreach meeting. The RMA is exploring potential dates in October 2020. Also, a Town Hall has been confirmed to take place in conjunction with the June 2021 AICPA ENGAGE conference. Additionally, FASB staff will inquire about holding a Town Hall in conjunction with the AICPA's spring Group of 400 (G400) Community Meeting. Additionally, the FASB staff plans to hold an outreach meeting with private equity stakeholders in 2021.

Summary of September 21, 2020 Meeting with the AICPA's Private Companies Practice Section Technical Issues Committee (TIC)

4. The PCC Chair reported that the PCC met with TIC for the annual PCC-TIC Liaison meeting. Several topics were discussed at that two-hour meeting. PCC members reported on that meeting to FASB members and highlighted the following topics:
5. *Goodwill Impairment*: A PCC member reported on the discussion of goodwill impairment, noting that many practitioners recognize a need to educate private companies about the goodwill impairment model. In particular, private companies have encountered challenges as they apply the guidance on goodwill impairment in the current environment, including the identification and evaluation of triggering events. The group suggested that the FASB consider providing additional education through a white paper or at one of the biannual FASB Update for Private Companies and Not-for-Profit Organizations webcasts. The PCC and TIC also discussed whether a change to the impairment model is needed.
6. The PCC Chair noted that private companies typically do not prepare interim statements and that may affect how and when they identify triggering events. The PCC Chair also noted that some private companies may not understand what constitutes a triggering event. PCC members emphasized that it is difficult for management to explain to users impairment charges that are recognized in annual financial statements due to triggering events occurring in prior unreported interim periods. A PCC member suggested that this is particularly difficult when the decline in operations or revenues which led to the triggering event has since reversed. PCC members noted that impairment testing is costly and questioned whether goodwill impairments in those circumstances provide users with relevant information.
7. An FASB member questioned whether private companies are concerned about the effort of performing impairment testing or about the recognition of an impairment charge. A PCC member noted that private companies never want to recognize an impairment charge but suggested that some private companies may not clearly understand the differences between the impairment model for goodwill and the impairment model for long-lived assets. Consequently, some private companies perform a single analysis even though the models are different.
8. An FASB member agreed that education about the impairment models, triggering events, and measurement could be useful to private companies. FASB members also emphasized that private companies should exercise judgment in identifying impairment indicators and

in making financial projections and estimates. PCC members agreed but noted that private companies may have difficulty understanding the distinction between judgment and hindsight. PCC members suggested that allowing the use of hindsight would provide better information to financial statement users.

9. A PCC member suggested that a potential practical solution could be to provide private companies with a COVID-related exception to evaluate triggering events as of year-end regardless of when the triggering event occurred. The PCC Chair indicated the PCC's willingness to continue to provide feedback to the FASB on this topic as needed.
10. *PPP Loans*: The PCC Chair reported that there continue to be requests for the FASB to provide more explicit guidance on accounting for PPP loans. Additionally, the PCC Chair suggested that the FASB consider ways to improve the ease with which stakeholders can locate educational information on the FASB website. A PCC member suggested that the FASB consider leveraging state CPA societies and Financial Executives International (FEI) chapters to further disseminate information and resources.

Implementation Issues—Revenue

11. FASB staff provided the PCC with an overview of the recently issued proposed Accounting Standards Update, *Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*. The proposed amendments are intended to address the difficulty in determining whether pre-opening services are distinct from the franchise license. The proposed practical expedient is aimed at simplifying the performance obligation analysis. The proposed Update was issued on September 21, 2020, with a 45-day comment period ending on November 5, 2020.
12. PCC members supported the amendments in the proposed Update. PCC members agreed that the bundled nature of the pre-opening services and the franchise license complicate the performance obligation analysis and allocation of consideration. An FASB member noted that the bundled nature of the performance obligations in the franchise industry informed the scope of the practical expedient. The PCC Chair suggested that there may be other industries that are experiencing similar challenges and that the PCC is interested in the feedback the FASB receives on the proposed Update.
13. PCC members also discussed the effect of the adoption of Topic 606, Revenue from Contracts with Customers, on Common Interest Realty Associations (CIRAs) and, in particular, on accounting for reserve assessments. PCC members and FASB staff noted that prior industry-specific guidance used by the CIRA industry has been superseded and therefore is no longer applicable. FASB staff reminded stakeholders that CIRAs are structured in a variety of ways that can affect the accounting conclusions for revenue recognition.

Implementation Issues—Leases

14. FASB staff provided the PCC with an overview of the Leases: Targeted Improvements project that was added to the FASB’s technical agenda on July 29, 2020. That project provides targeted improvements related to:
 - a. Sales-type leases with substantial variable lease payments
 - b. Remeasurement of lease payments based on a reference index or rate
 - c. Reduction of scope in a lease contract.
15. The staff expects that a proposed Accounting Standards Update will be issued in the fourth quarter of 2020.
16. FASB staff also provided a brief report on the Leases Roundtable held on September 18, 2020. Topics of discussion included lessee application of the guidance related to the rate implicit in the lease and to the incremental borrowing rate, lease modification guidance, embedded leases, and lessee allocation of fixed and variable payments between lease and nonlease components. As part of its post-implementation review efforts, the staff will summarize the feedback and develop a plan for FASB members to consider.
17. The PCC Chair noted that Roundtable participants recommended that the FASB avoid providing piecemeal improvements to the guidance. The FASB staff responded that the feedback was specific to potential changes to the lease modification guidance and would be shared with the FASB members. A PCC member noted that embedded leases and changes in lease classification over the term of the lease pose operational challenges to companies.

Profits Interests and Their Interrelationship with Partnership Accounting

18. FASB staff and PCC working group members provided the PCC with an update on the formation of the working group and discussed its first meeting. The working group comprises three PCC members and one TIC member. The working group’s objectives are to assist with outreach, identify practice issues on profits interests and partnership accounting, identify a scope for a potential PCC project on profits interests, and, ultimately, identify potential solutions to the practice issues. The working group will conduct outreach with specialists to better understand legal, tax, and valuation issues associated with profits interests.
19. PCC members who are on the working group expressed appreciation to the FASB staff for its efforts and support. The PCC Chair noted that the topic is complex and that there is little guidance specific to accounting for awards of profits interests. Consequently, there is an opportunity for the PCC to make a significant improvement for private companies.

Disclosure Framework: Disclosure Review—Income Taxes

20. FASB staff provided a summary of comments on certain proposed amendments that are relevant to nonpublic business entities that the Board received in response to the proposed Accounting Standards Update (Revised), *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*. PCC members provided feedback on the proposed disclosures and potential alternative disclosures relating to disaggregated tax information and carryforwards.
21. PCC members who are users of private company financial statements noted that they often have access to management, which allows them to obtain copies of tax returns or other relevant tax information. When asked whether further disaggregation beyond the proposed disclosures would provide decision-useful information, several PCC members noted that further disaggregation could be costly for companies and may not provide much benefit to users. To the contrary, a PCC member who is a user noted that there would be tremendous value in further disaggregation by country because it would help with risk assessment.
22. Several PCC members noted that disaggregating income tax expense (benefit) at a state-by-state level would increase the cost and complexity for private companies and their auditors. Those members noted that the income tax provision prepared for financial reporting purposes is an estimate based on a blended tax rate. The tax returns, which would include more precise information at the state level, are not prepared until well after the issuance of the financial statements. In order to provide further disaggregation by state, the tax returns would need to be prepared earlier. Additionally, costs to audit the disclosure would increase because of the increased granularity of the disaggregated information. Several PCC members recommended that any further disaggregated income tax disclosures required beyond those that were proposed should be optional for private companies.
23. On the proposed carryforward disclosures for nonpublic entities, feedback from PCC members was mixed. One PCC member noted that disclosing carryforward information on a tax-effected basis would provide more useful information compared to the proposed disclosure that would require carryforwards to be disclosed on a non-tax-effected basis. A couple of PCC members noted that tax-effected carryforward information is already available because it is used when preparing the income tax provision for financial reporting purposes. To the contrary, a couple of other PCC members did not support disclosing carryforward information on a tax-effected basis, citing cost-benefit concerns. Lastly, a PCC member noted that they would not be concerned about differences in carryforward disclosures between private companies and public companies because differences already exist.

Current Issues in Financial Reporting

24. PCC and FASB members briefly discussed practice issues arising from the current business environment from the effects of the COVID-19 pandemic. PCC members observed that many private companies lack awareness of a variety of accounting issues, which has been exacerbated as private companies face challenges in addressing COVID-19 issues such as

accounting for PPP loans and goodwill impairment. PCC members highlighted the PCC's role in educating private company stakeholders and raising awareness of the accounting issues that affect them. The PCC Chair also emphasized the importance of conducting outreach and seeking feedback from private companies. One PCC member suggested that the PCC engage with university programs to raise awareness of the PCC and the resources it provides to assist students as they prepare to enter the accounting profession. FASB staff noted that the next semi-annual CPE Provider Forum will be held October 12, 2020. That webcast is a key venue to disseminate information about the PCC and private company issues.

25. A PCC member reminded stakeholders of recent developments on loan forgiveness under the PPP program. PCC members noted that they are providing feedback on the educational papers that FASB staff is developing on debt modifications and troubled debt restructuring and on the impairment models for nonfinancial assets. The PCC Chair expressed appreciation to the FASB staff for its efforts in preparing those papers.
26. A PCC member recommended that the FASB staff's educational paper on impairment models for nonfinancial assets include information on accounting for inventory impairment. That PCC member observed that private companies may not be aware that in the case of goods that have been written down below cost at the close of a fiscal year, such reduced amount is the new cost basis for subsequent accounting purposes.