MINUTES OF THE JUNE 21 AND 22, 2021 PRIVATE COMPANY COUNCIL MEETING

Location: Virtual meeting; broadcast live on the FASB website

Meeting Dates: Monday, June 21, 2021
Tuesday, June 22, 2021

Meeting Times: June 21, 2021, 2:00 p.m. – 3:25 p.m.; June 22, 2021, 10:00 a.m. – 2:10 p.m.

PCC Members Present:
Candace Wright (Chair)
*Zubin Avari
Timothy Curt
Jeremy Dillard
David Lomax
Robert Messer
Michael Minnis
Holly Nelson
Adam Roark
Douglas Uhl
Yan Zhang

FASB Board Members Present:
Rich Jones (Chair)
James Kroeker (Vice Chairman)
Christine Botosan
Gary Buesser
Susan Cosper (FASB – PCC Liaison)
Marsha Hunt
Hal Schroeder

PCC Members Absent:
*Zubin Avari

Incoming FASB Board Member Observers:
Fred Cannon

FASB Staff Present:
Hillary Salo
Nellie Debbeler
Jeffrey Mechanick
Jenifer Wyss
Lauren Reno
Preston Lewis
*Adriana Yepes
*Alicia Posta
*Alyssa Mancini
*Bobbi Gwinn
*Carolyn Warger
*Chris Bohdan
*Chris Roberge
*David Yates
*Fungisai Chambwe
*James Starkey
*Joy Sy
*Julia Blair
*Julie Um
*Katherine Sipple
*Liz Gagnon
*Lucy Cheng
*Mary Mazzella
*Nick Cappiello
*Peter Proestakes
*Rachel Daniel
*Sam Tice
*Steven Whitman

FAF Representatives Present as Observers:
*Lynnette Kelly, FAF Trustee
Kim Petrone, FAF Chief of Staff
*Rick Reisig, 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. The PCC Chair separately recognized the following individuals:
    a. Adam Roark, PCC member whose term commenced on June 1, 2021
    b. Fred Cannon, incoming FASB Board member whose term commences on July 1, 2021
    c. Nellie Debbeler, FASB Deputy Technical Director
    d. Hal Schroeder, outgoing FASB Board member whose term ends on June 30, 2021
    e. Preston Lewis, departing FASB Post-Graduate Technical Assistant

Town Hall/Outreach Meeting Update

2. FASB staff highlighted the semiannual webcast *IN FOCUS:* FASB Update for Private Companies and Not-for-Profit Organizations, which was held on June 14, 2021. The next semiannual webcast focusing on private companies and not-for-profit organizations is scheduled for December 13, 2021.
3. FASB staff noted that the PCC had an outreach meeting with the Accounting and Tax Committee of the Risk Management Association (RMA) at the end of April. Topics discussed included accounting for government assistance, impairment of nonfinancial assets, debt modifications, going concern, leases, and reference rate reform.
4. FASB staff noted that the PCC is scheduled to have a virtual Town Hall with the AICPA's Group of 400 (G400) Community on August 25, 2021. The PCC Chair noted that the G400 community is made up of smaller firms outside of the Top 100 firms and that receiving feedback from practitioners in the G400 community is important.
5. FASB staff noted that the PCC plans to have a virtual two-part Town Hall during the AICPA ENGAGE Conference in July.

Disclosure Framework: Disclosures—Interim Reporting

6. FASB staff provided an update on the project objective and background. The staff is currently analyzing the applicability of the interim disclosure requirements and potential proposed amendments to nonpublic entities. FASB staff solicited feedback from PCC members to better understand common reporting practices of nonpublic entities, including the types of financial information produced by private companies and requested by private company financial statement users at interim periods.
7. PCC members discussed the types of interim financial information requested by private company financial statement users, which is primarily driven by debt covenant compliance certificates and selected financial information that supports those certificates. PCC members noted that this supplemental information can include accounts receivable and payable aging schedules, work-in-progress reports, inventory eligible for a borrowing base, operating expenses, leverage information subsequent to the adoption of Topic 842, Leases, and, more recently, supplemental information related to Paycheck Protection Program loans. A PCC member who is a practitioner noted that covenant compliance contract terms generally relate to GAAP financial information.
8. PCC members noted that interim financial information tends to exclude notes to the financial statements. A PCC member who is a practitioner observed that interim financial information is sometimes prepared on a modified accrual basis, but most PCC members indicated that GAAP financial statements are prepared on an interim basis. A PCC member who is a preparer observed that covenant contracts generally do not specify whether financial information should include notes to the financial statements and the financial statements do not include a disclaimer that footnotes are excluded. A PCC member who is a practitioner noted that a small percentage of her clients prepare a full set of interim GAAP financial statements including notes, but generally her clients do not include footnotes at interim periods.
9. Overall, PCC members agreed that the facts and circumstances of each lender/debtor relationship determine what type of interim financial information is requested from private companies. Some of

the factors that determine the type of information requested include the size of the loan, size of the company, preexisting relationships between the lender and debtor, lender-assessed risk, credit quality, and amount of credit sought.

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

10. FASB staff provided a project update and noted that the staff is currently performing outreach on the types of intangible assets that provide decision-useful information and factors that may be used to estimate the useful life of goodwill if voluntarily deviating from a 10-year default amortization period, including management's estimated payback period.

11. Several PCC members did not agree with the use of an estimated payback period as a method to estimate the useful life of goodwill and cautioned against it being the only alternative method to deviate from the default amortization period. A PCC member who is a preparer and a PCC member who is a user both questioned the decision usefulness of the resulting financial information when using an estimated payback period to determine a goodwill amortization period, especially considering the varying rigor with which private companies estimate the payback period.

12. Another PCC member who is a user noted that not all private companies currently estimate the payback period and requiring that estimate as the consideration to deviate from a default amortization period could add to the overall cost. Additionally, he noted an inconsistency in the relationship between a payback period and the period of benefit received from goodwill, potential challenges to audit an estimated payback period, and that access to management of private companies may not provide incremental information. Another PCC member who is a user noted he does not view a direct relationship between the intangible assets associated with goodwill and a payback period and would prefer a more direct relationship. A PCC member who is a preparer noted that most investments expect to receive a return greater than the initial investment amount, and that an estimated payback period does not consider the costs of capital and the expected return on investment. A PCC member who is a preparer and a PCC member who is a practitioner suggested looking to other intangibles as a basis for justifying a different amortization period.

13. PCC members who are practitioners noted that when private companies elect the existing goodwill amortization alternative, generally they elect to use the default amortization period, and in some instances, goodwill is amortized over a shorter period than the default.

14. PCC members who are practitioners indicated that the transition was smooth for those private companies that have elected the accounting alternative to amortize goodwill and that most private companies have elected to test goodwill for impairment at the entity level, rather than at the reporting unit level.

Disclosures by Business Entities About Government Assistance

15. FASB staff reported that at its May 26, 2021 meeting, the Board completed redeliberations on the proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, including narrowing the scope to transactions a business entity is accounting for, by analogy, under a grant or contribution model (for example, IAS 20 or Subtopic 958-605). The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot.

16. A PCC member who is a practitioner asked for clarification on the transition method. FASB staff noted that this guidance has a prospective transition method with an optional retrospective transition method.

17. A PCC member who is a practitioner asked for clarification on the location of the required disclosure in the financial statements. FASB staff noted the Board did not specify requirements for the location of the disclosure in the financial statements.

18. A PCC member who is a practitioner and a PCC member who is a user asked for clarification on the type of significant commitments required to be disclosed under the forthcoming standard and how the disclosure applies to large groups of relatively heterogeneous contracts within the scope

of the guidance. FASB staff noted that an entity would consider the facts and circumstances of the contracts or the arrangement when applying the forthcoming standard.

Profits Interests and Their Interrelationship with Partnership Accounting

19. FASB staff provided the PCC with an update on the research and outreach conducted by the staff and Working Group on this PCC research project. FASB staff and Working Group performed outreach with valuation, tax, and legal specialists and reported findings to the PCC. FASB staff noted that it and the Working Group are now conducting outreach with preparers, practitioners, and users to identify accounting issues that may need to be addressed through standard setting.

20. PCC members shared their experiences with profits interests in practice, noting that generally profits interests awards are granted to senior management and that the awards can have varying terms. A PCC member who is a practitioner noted that there are challenges associated with measuring profits interests; that determining whether to apply the guidance in Topic 718, Stock Compensation, or Topic 710, Compensation—General, can be challenging; and that it may be preferable to recognize and measure the value of a profits interest only when an exit event is probable. PCC members who are practitioners noted that accounting challenges result from the diverse and complex terms and features of the awards.

21. A PCC member who is a preparer noted that estimating the volatility of awards for the purposes of measurement can be challenging. That PCC member also explained that it can be difficult to determine whether a subsidiary should recognize compensation cost when awards are granted by a parent entity, but the services are not provided directly to the parent entity.

22. A PCC Working Group member who is a preparer, a PCC Working Group member who is a practitioner, and an FASB member emphasized the importance of broadly considering the types of partnerships and similar entities that issue profits interests. A PCC Working Group member noted that certain entities' equity can be composed exclusively of profits interests and that this should be considered when identifying the scope of a potential project in order to avoid unintended consequences.

23. An FASB member and the PCC Chair noted that because profits interest awards are complex, accounting for profits interests will have some level of necessary complexity and that additional standard setting in this area will not eliminate all accounting complexity.

24. FASB staff provided the PCC with a simplified example of profits interests awards initially granted by a private company that remained outstanding after the company's initial public offering. An FASB member noted that a potential private company alternative or practical expedient would most likely need to be unwound when an entity becomes public.

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

25. The PCC reached a final consensus on a practical expedient for a private company to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees that describes the characteristics of a reasonable application of a reasonable valuation method. The PCC discussed and made decisions on significant external review feedback and addressed sweep issues related to scope, application, disclosure, effective date, and measurement.

26. The PCC also discussed the merits of explicitly stating within the FASB Accounting Standards Codification that valuation approaches from the Treasury Regulations of Section 409A of the U.S. Internal Revenue Code (Section 409A) are examples of ways to achieve the practical expedient. A PCC member who is a user noted that referencing Section 409A paragraphs within the Codification, even as an example in addition to the description of the characteristics of a reasonable application of a reasonable valuation method may (a) be redundant and therefore unnecessary, (b) set a precedent with unintended consequences, and (c) result in automatic changes to GAAP upon a change to Section 409A that the FASB would need to monitor. For those reasons, that PCC member suggested referencing Section 409A within the basis for conclusions in the Accounting Standards Update, but not in the amendments to the Codification. Several FASB members stated

that they were less concerned about automatic changes to GAAP because they viewed the reference to Section 409A within the Codification as a point-in-time example. The PCC decided with a supermajority to maintain the paragraph reference to Section 409A within the Codification. The PCC made that decision on the basis of supporting the operationality of the practical expedient with the research practices of nonpublic entities in mind, the infrequency of and long lead time for changes to the Treasury Regulations, and the view that changes to the Treasury Regulations would render the Section 409A paragraph references within the Codification obsolete rather than automatically change GAAP. **(Vote 10-1)**

27. FASB staff highlighted that some external reviewers stated that the guidance requiring application on a measurement-date-by-measurement-date basis could be misinterpreted to imply that the practical expedient could also be applied for liability-classified share-based awards when a liability-classified award has the same underlying share and the same measurement date as an equity-classified award. To address that concern, the PCC unanimously agreed to clarify that the measurement-date-by-measurement-date application requirement only would apply to share-based awards within the scope of the practical expedient. The PCC also decided unanimously that additional clarification about whether the practical expedient could be applied for equity-classified awards that have the same measurement date and the same underlying share as a liability-classified award was unnecessary. **(Vote 11-0)**

28. FASB staff noted that some external reviewers suggested that a nonpublic entity should be required to disclose when it has elected to apply the practical expedient. In response, the PCC unanimously decided to require a nonpublic entity to disclose when it has elected the practical expedient in addition to those disclosures that are already required by Topic 718, Compensation—Stock Compensation. The PCC made that decision on the basis that such a requirement would be consistent with the disclosures associated with other practical expedients and alternatives within Topic 718, as well as the Private Company Decision-Making Framework. The PCC also noted that the disclosure requirement would result in more consistent disclosure than would relying on nonpublic entities to disclose their election to apply the practical expedient in accordance with other paragraphs in Topic 718 or in Topic 235, Notes to Financial Statements. **(Vote 11-0)**

29. FASB staff noted that an external reviewer requested clarification on whether early adoption of the final amendments in the Update would be allowed within an interim period or as of the beginning of an interim or beginning of an annual period. The PCC unanimously agreed to allow early adoption of the final amendments within an interim period on the basis that it would provide the most flexibility to nonpublic entities. The PCC made this decision on the basis of maximizing the flexibility of the practical expedient. **(Vote 11-0)**

30. FASB staff noted that an external reviewer suggested simplifying the transition and effective date guidance by excluding references to annual or interim periods beginning after a particular date and instead stating that the practical expedient could be applied for awards granted or modified after the issuance of the Update. The PCC unanimously decided to maintain the existing structure, which would require that the practical expedient apply to qualifying awards granted or modified during fiscal years beginning on or after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The PCC made this decision on the basis that the structure of the effective date guidance is well understood by nonpublic entities, that it is consistent with the Private Company Decision-Making Framework in delaying the effective date for interim periods until one year after the effective date for annual periods, and that it provides flexibility to apply the practical expedient within a fiscal year as opposed to as of a specific date. **(Vote: 11-0)**

31. FASB staff noted that some external reviewers recommended that additional items should be added to the list of factors to be considered under a reasonable valuation method and that an example should be added to clarify some existing factors. The PCC unanimously decided to retain the list of factors previously discussed and not to add the items identified by external reviewers. Several PCC members indicated that it is important to align the factors with Section 409A to maximize the potential cost savings of the practical expedient and that introducing additional factors could potentially reduce the cost savings that the practical expedient is intended to achieve. **(Vote 11-0)**

32. The PCC unanimously agreed to proceed to the issuance of a final Update, subject to Board endorsement. **(Vote: 11-0)**

33. The FASB will consider endorsement of the final consensus at a future meeting.

Current Issues in Financial Reporting

34. PCC members discussed practice issues arising from the current business environment under the COVID-19 pandemic. PCC members discussed the accounting and reporting for employee retention credits included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent COVID-19-related legislation.

Improving the Accounting for Asset Acquisition and Business Combinations (Phase 3 of the Definition of a Business Project)

35. FASB staff provided the PCC with a project update and noted its objective, which is to improve and align the accounting for acquisitions of businesses and assets. FASB staff then gave a summary of the accounting for contingent consideration in business combinations and solicited feedback from PCC members on potential cost savings of potential alternatives and on what information is useful for private company users.

36. PCC members had mixed views on how to account for contingent consideration in a business combination and what the expected costs and expected benefits would be under different models.

37. Multiple PCC members, including two users, two preparers, and a practitioner expressed support for a model that recognizes contingent consideration when the contingency is probable of occurring and estimable. Reasons for their support of that model include the inherent complexity and uncertainty associated with assigning a value to contingent consideration. Most of those PCC members also expressed support for accounting for the changes in contingent consideration as part of the purchase price of the business. Other PCC members who are users expressed a preference for recognition of contingent consideration through the income statement.

38. Multiple other PCC members, including two practitioners and a preparer, supported the current accounting for contingent consideration. A PCC member who is a practitioner shared her experience that the purpose of recognizing the fair value of the contingent consideration at the acquisition date is widely understood and operational today. Another PCC member who is a practitioner noted that a benefit of the existing accounting is that the probability threshold to record a liability is lower than the potential alternatives.

Revenue—Post-Implementation Issues

39. PCC members briefly discussed implementation issues related to Topic 606, Revenue from Contracts with Customers, and FASB staff provided an update on the next steps of the post-implementation review.

Leases—Implementation Issues and Discount Rate for Lessees That Are Not Public Business Entities

40. FASB staff updated the PCC on the proposed Accounting Standards Update, *Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities*, which was issued on June 16, 2021, and has a comment period ending on July 16, 2021. The proposed amendments are intended to improve discount rate guidance for lessees that are not public business entities, including private companies. FASB staff solicited feedback on an alternative that would require disclosure of the weighted-average discount rate separately for leases that use the risk-free rate and all other leases.

41. A PCC member who is a preparer noted that the additional disclosures could require system changes to record two different rate bases and may increase cost and complexity based on the volume of leases. That PCC member preferred a qualitative disclosure. A PCC member who is a practitioner expressed a view that a qualitative disclosure may be sufficient to communicate decision-useful information to users.

42. PCC members expressed mixed views about the decision-usefulness of the information resulting from the alternative disclosure, versus a more qualitative disclosure. PCC members who are users

noted that, in general, lease information is useful but acknowledged that these proposed amendments could be costly for preparers to implement and preferred a qualitative disclosure in consideration of that additional cost and the relative importance of the resulting information. One PCC member who is a user discussed feedback the PCC heard from recent outreach with a user group that lenders do not use financial information associated with leases as presented on the financial statements and noted that a qualitative disclosure with information that allows the user to quantify asset classes would be decision useful. A PCC member who is a practitioner noted that some private companies may not have large volumes of leases and that disclosure of the weighted average discount rate separately for leases using the risk-free rate versus all others would result in granular information for those companies and, therefore, views the resulting information as decision useful.

43. FASB staff provided a brief update of Post-Implementation Review activities associated with Topic 842, Leases.

Open Discussion

44. Two PCC members raised concerns about the May 26, 2021, tentative Board decisions made on the FASB's Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions project. Those PCC members provided feedback on measurement and suggested that further outreach be performed with the PCC. A more in-depth discussion is expected to occur at an upcoming PCC meeting.

Concluding Comments

45. The PCC Chair thanked everyone for their participation and reminded participants and observers of the upcoming meeting on September 27-28, 2021.