MINUTES OF THE APRIL 12, 2016 PRIVATE COMPANY COUNCIL MEETING

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Tuesday, April 12, 2016
Starting Time: 8:30 a.m.
Concluding Time: 12:15 p.m.

PCC Members Present:
Candace Wright (Chair)
Timothy Curt
George Beckwith
Steve Brown
Jeffery Bryan
Thomas Groskopf
David Lomax
Harold Monk
Carleton Olmanson
Larry Weinstock

FASB Board Members Present:
Jim Kroeker
Daryl Buck
Tom Linsmeier
Hal Schroeder
Marc Siegel
Larry Smith

FASB Board Members Absent:
Russell Golden

FASB Staff Present:

Susan Cosper	*Elizabeth Gagnon	*Dianora DeMarco
Jeffrey Mechanick	*Nick Cappiello	*Shayne Kuhaneck
Michael Cheng	*Halie Creps	*Jenifer Wyss
Kendall Verbeek	*Marie Dhimmar	*Christopher Roberge
Benjamin Dart	*Jamie Dordik	*Aarika Friend
*Jin Koo	*Adriana Yepes	

FAF Trustees Present:
Diane Rubin

*For certain issues only.

INTRODUCTORY REMARKS

Ms. Candace Wright, Chair of the Private Company Council (PCC), welcomed everyone to her first meeting, including three new PCC members—Mr. Timothy Curt, Warburg Pincus; Mr. David Lomax, Liberty Mutual; and Mr. Harold Monk, Carr, Riggs & Ingram, LLC. The Chair also welcomed Diane Rubin, former PCC member and current FAF Trustee, and thanked her for agreeing to serve as the designated FAF Trustee PCC Observer. Michael Cheng, the Financial Accounting Standards Board's (the Board's) PCC Coordinator, discussed upcoming private company town halls, including the town halls at Baruch College in New York City on June 13, 2016, and at the National Advanced Accounting and Auditing Technical Symposium in Salt Lake City on July 22, 2016. Mr. Cheng asked PCC members for volunteers who would attend those town halls and also discussed the possibility of a third town hall centered on users of financial statements.

Mr. Cheng then discussed the background, content, and purpose of the Board's Agenda Discussion Paper, which is now being called an "Invitation to Comment" (ITC), designed to solicit feedback from stakeholders on the Board's potential future agenda. The Board plans to issue the ITC in late May or June of this year. Ms. Wright asked the Board to inform the PCC of any specific requests for the PCC in this matter. A Board member informed PCC members that it would be helpful if the PCC were to provide feedback on any unique private company issues related to the topics laid out in the ITC.

DISCLOSURES BY BUSINESS ENTITIES ABOUT GOVERNMENT ASSISTANCE

FASB staff presented the comment letter feedback received on the proposed FASB Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. One PCC member acknowledged that the project was understandable in its direction—that is, since there is currently no specific guidance in GAAP that addresses government assistance—but has concerns about certain aspects of the proposal. That PCC member did not believe that this information had been broadly requested by users of financial statements. The PCC member identified two primary concerns about the proposal. First, he expressed his concern about the quantitative measure of the benefit received but not recognized from government assistance. That is, he did not believe the proposal to be operational in that regard. Second, he indicated his concern related to the proposed requirement that could cause trade secrets to be divulged in these disclosures.

A Board member responded by asking whether the PCC member believed that the Board would be able to address the scoping concerns raised by that PCC member. The PCC member suggested that private companies could instead give red flag disclosures to make users aware of the government assistance without divulging trade secrets or requiring measurement of the benefit not recognized. The FASB staff asked that PCC member to describe examples of trade secrets. The PCC member listed examples including headcount changes as well as research and development activities. A Board member asked the PCC member why he thought those items would be required to be specifically disclosed in great detail (for example, the number of employees versus the requirement to hire a specific amount of employees). The PCC member responded that some of the benefits received are contingent upon those items, like headcount, and could be scoped into the disclosures based on the current proposed guidance. The Board member indicated that the disclosures would not require overly prescriptive disclosures about the exact headcount. Other Board members agreed.

FASB staff asked whether there is a concern with any of the other disclosures (with the exception of amounts of assistance not recognized). PCC members indicated that one of their significant concerns is about providing information to vendors or others who are also competitors.

One PCC member believes that many of the disclosure requirements in the proposed Update are already required by other Topics in the Accounting Standards Codification, if material. For instance, Topic 275, Risks and Uncertainties, could capture some of the proposed disclosure requirements. He also questioned whether transfer pricing agreements were scoped into this proposal.

FASB staff addressed the concerns of that PCC member, acknowledging that there are a number of companies that provide disclosures already existing in practice, and pointed out that the Board decided it was necessary to clarify the requirements in relation to government assistance to create consistency among companies. FASB staff also indicated that it was not the intention of the Board to scope-in transfer pricing agreements and that this could be clarified in the guidance.

A PCC member reiterated the concerns previously raised about operability and listed several examples to illustrate that concern. He indicated that he did not believe that valuing the benefit received from government assistance would improve the relevance of information in financial statements. The PCC member also indicated that the scope of the proposed Update should be narrowed to make the guidance more operable. Another PCC member agreed, advising the Board to be wary of unintended consequences.

A Board member asked PCC members to work with the FASB staff to fully explain their concerns relating to scope. The Board member continued by noting that it would be particularly helpful to receive feedback on the language in the proposed standard to address concerns about scoping items into the guidance that the Board did not intend to include.

A PCC member who is also a user of financial statements indicated that he has not focused on information about government assistance in the past. The PCC member sees the benefit of receiving that information to indicate the existence of material issues, but believes that he could always ask the preparer for more information as long as he was made aware of its existence. That is, he was not certain that the benefit of valuing government assistance not typically recognized would justify its cost.

NONEMPLOYEE SHARE-BASED PAYMENT ACCOUNTING IMPROVEMENTS

FASB staff presented its research and alternatives on the FASB project Nonemployee Share-Based Payment Accounting Improvements. PCC members indicated their general support of the most recent efforts to simplify the current employee guidance and expressed support for more closely aligning the models for employee and nonemployee share-based compensation awards.

One PCC member indicated that the nonemployee model on its own might be better than aligning the nonemployee model to the employee model.

FASB staff stated that its outreach to stakeholders indicated otherwise. The staff noted that stakeholders participating in the outreach effort argued that the increased frequency with which share-based payments were being remeasured at fair value under the nonemployee model has made it more costly and complex than the employee model. Another PCC member agreed with the staff's outreach stating that the employee model would be preferred because of the difficulty encountered when determining a fair value. Another PCC member stated that while the nonemployee model may be technically more relevant because it moves away from the "stale" grant date fair value in the employee model, it creates much more complexity and is not operable. Consequently, that PCC member believes that aligning the model with the employee model is the best path forward. Finally, a third PCC member indicated that aligning the models for services, but not goods, would be the best approach.

A Board member asked the staff to clarify whether the nonemployee model pertains to both goods and services. The staff indicated that it did and that aligning the model just for services—per the PCC member's request—would require leaving the nonemployee model in place for goods, which may not reduce existing complexity because of the difficulties with clearly defining the scope.

EITF ISSUE NO. 16-A, "RESTRICTED CASH"

FASB staff presented on the recent consensuses-for-exposure reached on EITF Issue No. 16-A, "Restricted Cash." The staff explained that the Task Force reached a consensus-for-exposure to include restricted cash and cash equivalents when reconciling the beginning and end of period total amounts shown in the statement of cash flows. One PCC member questioned whether any definition of restricted cash was determined. The staff remarked that currently there is no definition of "restricted cash" and that the Task Force originally indicated that part of the project would be to define it. After thorough research, the Task Force found that this proved difficult because of the complexity and number of ways in which cash could be restricted. Furthermore, the Task Force decided that the issue resulting in diversity in practice is the presentation of changes in restricted cash on the statement of cash flows. As such, the Task Force decided not to establish a definition.

Another PCC member observed that while the EITF's project on cash flows was addressing some difficult practice issues, he believed that the balance sheet and intrinsic hierarchy of liquidity should instead be addressed. A Board member commented that this is not the intent of the EITF project—the intent is to reduce the diversity in practice of the classification and presentation of changes in the principal balances of restricted cash in the statement of cash flows. The Board member indicated that the Task Force felt it necessary to avoid scope creep at the EITF level.

The PCC Chair asked whether this proposal would apply to not-for-profits (NFPs). The staff indicated that the guidance would apply to NFPs; however, the Task Force was not trying to change current practice with respect to what an entity has determined to be restricted cash. The

PCC Chair also questioned whether there would be additional disclosure requirements about restricted cash. The staff indicated that preparers would have to disclose the nature of restrictions and the location and amount of restricted cash if not separately stated on the balance sheet in order to be able to reconcile those amounts with total amounts on the statement of cash flows. All entities that prepare a statement of cash flows are in the scope of Issue 16-A. The PCC suggested that the guidance provide examples of such disclosures, to which the staff responded that it was currently drafting examples to that effect for guidance in Topic 230, Statement of Cash Flows.

PCC ISSUE NO. 15-02, "APPLYING VARIABLE INTEREST ENTITY GUIDANCE TO ENTITIES UNDER COMMON CONTROL"

The PCC Coordinator summarized the work to-date on PCC Issue No. 15-02, "Applying Variable Interest Entity Guidance to Entities under Common Control," and indicated that the plan established at the December 4, 2015, PCC meeting may no longer be adequate to address perceived issues. The plan established in December 2015 was to provide examples in the Codification that would help explain how to apply the Variable Interest Entities (VIE) guidance to privately held business entities under common control. The FASB staff presented several alternative paths to address that issue and asked the PCC to determine which path would be appropriate.

The PCC Chair summarized the discussion from the PCC's closed session, noting that the focus of its discussion was on which entity would be the primary beneficiary in typical common control scenarios for private companies. Another PCC member remarked that he believes the guidance is very unclear about how to apply VIE guidance to those scenarios and that to do nothing would be a misstep. He advocated creating a new model (Path 2) for private entities under common control.

A PCC member stated that he thinks the VIE model was not created with private company common control scenarios in mind. That member also indicated that he would not support creating a scope exception (Path 1) without understanding more about which entities would qualify for the scope exception. Other than the amount of time it would take to accomplish each alternative, he does not see a significant difference between creating a scope exception and creating a new consolidation model for private companies under common control. That member also believes that the challenges that private companies face when applying the consolidation guidance to entities under common control are not substantially different for public entities.

Another PCC member shared his belief that consolidation guidance is overly prescriptive and complex and has led to over-consolidation due to a misunderstanding of the consolidation guidance. He believes that a consequence of complex accounting guidance is that preparers will either deviate from GAAP or prepare financial statements that do not provide meaningful information to users of financial statements. He supports creating a scope exception (Path 1) with disclosures that would be relevant for users. He also supports doing outreach to determine what disclosures would be appropriate.

One PCC member observed that many individual Board and staff members came to different conclusions when reading the VIE guidance and applying it to common control scenarios, which indicates that the guidance is complex. He disagrees with creating a scope exception because he believes that entities that don't qualify for the scope exception would still have to struggle to apply the consolidation guidance to their scenarios. That is, creating a scope exception would not solve the problem that the PCC set out to resolve. Additionally, he noted that there is currently no definition of "common control" and more pressure would be placed on creating one. Furthermore, limiting a scope exception to private companies could be problematic because private companies don't exclusively transact with private companies, and private companies aren't the only entities with common control arrangements.

A Board member stated that he had changed his opinion about how the guidance should be applied to common control scenarios—indicating that now he believes the owner of the entities under common control would typically be the primary beneficiary. However, he believes that it would be appropriate to fall back on the guidance for combined financial statements if those entities are scoped-out of consolidation. That is, he believes that users wishing to obtain combined financial statements should still be able to do so irrespective of a scope exception. That Board member suggested creating a scope exception because he thinks that creating a new consolidation model for common control entities would be a much bigger challenge than the PCC is anticipating.

Another Board member remarked that the words in the VIE guidance would suggest a "brother entity" should not consolidate its "sister entity" in common control arrangements, but that the examples in the VIE guidance might suggest otherwise. He believes that the examples created confusion by suggesting a brother entity could consolidate its sister entity. He reinforced the concept that an entity cannot create and absorb its own risk. Additionally, he observed that in scenarios in which there is common control, he thinks the ultimate power always rests with the owner of the entities under common control, and thus the owner is always the primary beneficiary. This Board member believes that this conclusion could be clarified using illustrative guidance. He does not believe that creating a scope exception or a new consolidation model would be viable paths. The Board member indicated that this was not just a private company issue and, as such, that it should be a Board project.

Another Board member agreed that the guidance is too complex, and that if the intent of the guidance was to indicate that sibling entities should not be consolidated in common control scenarios, then that needs to be clarified. However, that Board member wanted to be certain that this is the right outcome—that, generally, the owner would consolidate its entities under common control. That Board member believes that there could be scenarios in which a brother entity should consolidate a sister entity under common control.

An FASB staff member indicated that when the model was created, the effects of the VIE guidance on privately held businesses under common control were not extensively discussed and, instead, public speeches were made that implied that certain common control arrangements should be consolidated. Prior to the Board/staff member speeches in 2004, most arrangements under common control were off-book, however, the speeches implied other consolidation outcomes were appropriate.

A PCC member thought this issue could be solved through an educational effort. He believes that following Path 2 (a new model) would require exploring Path 1 (a scope exception). The member preferred Path 1 because he felt it would be a solution the PCC could undertake.

Another PCC member expressed a desire to explore when combining entities under common control would be appropriate. A PCC member thought that neither Path 1 nor Path 2 may be appropriate but, instead, the guidance should clarify that sibling entities are never consolidated in common control arrangements.

A Board member preferred creating an example in the guidance that would illustrate how to apply the guidance correctly instead of explicitly stating in the guidance that sibling entities are never consolidated in common control arrangements. However, that Board member observed that such a solution would not resolve whether there would be enough information disclosed about sibling entities through existing consolidation guidance and related-party transactions disclosure requirements.

A PCC member indicated that if users have the ability to request how they would like performance results presented (for example, consolidated, combined, or stand-alone), then the guidance should allow for that flexibility without requiring specific outcomes.

A Board member agreed that it is not appropriate for brother-sister entities to be consolidated, and he supported being very clear about that in the guidance. To address the issue that some users prefer consolidation of these brother-sister entities, the Board member suggested continuing to allow combination as an option. Furthermore, information that is not provided in combined financial statements that would be provided in consolidated (or perhaps stand-alone) financial statements could be required to be disclosed in the footnotes. In essence, the Board member preferred to make it clear that consolidation is not an appropriate conclusion for brother-sister entities, but that that combination is acceptable.

A user PCC member indicated that FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities* (and its subsequent amendments), appropriately consolidated and presented exposures of entities under common control when necessary. However, that PCC member was concerned about what he called a trend involving the growing number of GAAP exceptions taken in audit opinions due to VIE guidance.

Several PCC members questioned whether they would need to correct past audit opinions where there was consolidation. A Board member responded that the reason this issue is being discussed is because there is diversity in practice, and just because there is diversity in practice does not mean that accounting or audit errors exist.

Several Board and staff members agreed that there was confusion in practice about how to apply the guidance and that the confusion needed to be mitigated through clarification of the guidance. The PCC Chair agreed that clarification of the guidance was necessary. Several Board members suggested a guidance clarification—instead of a scope exception—for all entities under common control. The FASB staff indicated that they could research how users would view deconsolidation of all brother-sister entities and what disclosures would be required in this case or when entities prepare combined financial statements.

A PCC member disagreed with providing guidance that would indicate sibling entities are never consolidated in common control arrangements because it ignores the purpose and design of some arrangements. He believes that there could be some fact patterns in which combination or consolidation is appropriate. He felt that the PCC might be moving too quickly by deciding that all entities under common control should not be consolidated.

A Board member indicated that any project that the Board adds to its agenda would be thoroughly researched by the FASB staff—that no decisions would be made without due process. A PCC member agreed that this would be necessary and appropriate, and he would support the staff's performing more research before the PCC or the Board make any decisions.

PCC ISSUE NO. 15-02 - PCC Vote

The PCC Chair held a vote to recommend moving this project to the Board agenda. The vote was nine to one in favor of recommending that the Board add this project to its agenda. The Chair then reiterated the urgency with which the project must be undertaken.

IMPROVING THE EQUITY METHOD OF ACCOUNTING

FASB staff presented an update on the FASB project to improve the equity method of accounting and received feedback on the latest updates. The PCC Chair indicated support for Alternative B—providing an option to do away with consideration of the basis difference. Another PCC member indicated a preference for Alternative C—amortizing, when applicable, the basis difference over the useful life of its predominant source.

A Board member questioned whether selecting Alternative B would imply that treating the basis difference as goodwill and also choosing to amortize goodwill under the private company accounting alternative would then require you to amortize the basis difference.

FASB staff replied that it would mean that the entire basis amount (including goodwill) would not be amortized.

A PCC member suggested that the FASB do a cost benefit analysis to determine whether the change is sufficiently impactful to warrant a change and whether current practice would be better off if nothing was done with this issue.

A PCC member suggested an Alternative B″ under which the difference between the purchase price and net book value of the purchased assets would be treated as a single asset similar to goodwill. An impairment test on the cost of the assets would still be performed, but it would be at the security level and the amortization would just be of the basis difference between purchase price and net book value.

A Board member questioned why Alternative A—to carry the equity investment at fair value—wasn't an option for the PCC member who preferred Alternative B″. The PCC member indicated that the reason is because fair value is not a reliable measure for most private companies.

Another PCC member asked whether *predominant source* had been thought of in this research. The FASB staff indicated that it does not recommend Alternative C because it would not provide much cost relief in many scenarios.

DISCLOSURE FRAMEWORK: DISCLOSURE REVIEW—INCOME TAXES, INVENTORY, AND FAIR VALUE

Income Taxes

FASB staff updated PCC members on the project activities of the Disclosure Framework: Disclosure Review—Income Taxes project. A PCC member asked for clarification on what the level of disaggregation would be for pretax income (loss) for the proposed income tax disclosures. FASB staff indicated that the disaggregation would be between domestic and foreign pretax income (loss). A PCC member asked for justification of why there would be a disaggregation between domestic and foreign income taxes paid instead of between domestic and foreign income tax expense. FASB staff indicated that this was done because, based on feedback received, it would be less costly for preparers.

A PCC member indicated that he does not see the benefit to users of disclosing taxes paid by country alone without also seeing the income, tax credits, and withholding taxes for the country, as well. The PCC member felt that providing all information necessary to achieve completeness would be too costly and therefore none of the proposed disclosures should be required.

Inventory

FASB staff updated PCC members on the status of the Disclosure Framework: Disclosure Review—Inventory project, and requested feedback from PCC members, and also requested PCC members to provide assistance with obtaining feedback from private company preparers, users, and practitioners outside of the PCC. The PCC Chair summarized discussions from the closed session held the previous day. A Board member indicated that current inventory disclosures are very limited and, in fact, are insufficient for users in many cases, especially in industries like retail, where inventory is an important balance sheet item. Based on his experience at a private company retailer, the Board member felt it would be prudent to consider enhancements in this area.

A PCC member observed that it is necessary to be cognizant of the fact that it is typically easier for retail companies to perform a drill down of inventory items than it would be for manufacturing companies.

A PCC member indicated that as a user of financial statements, a breakdown of the information would be valuable. The reason it is valuable is because users are not always in a position to request information of that type in a timely manner. It would be much easier to perform financial statement analysis if that information was already provided in the financial statements. The PCC Chair asked if a roll-forward would be useful. The PCC member responded that turnover of inventory is of primary concern.

Fair Value

FASB staff provided an update on the project activities of the Disclosure Framework: Disclosure Review—Fair Value project. The staff asked PCC members whether the removal of the Level 3 roll-forward would cause problems for private companies.

A PCC member asked whether this project would disturb the current deferral of the effective date for Employee Stock Ownership Plans measurement uncertainty and sensitivity analysis. FASB staff said that at this point it would not. The PCC member encouraged FASB staff to think about this issue as well as the definition of a public business entity in the future when assessing for whom this disclosure requirement would be relevant.

A PCC member expressed his belief that the proposed exemptions for private companies are appropriate. The PCC member believes more work should be done on the exposure draft for the public company-only suggested disclosures that discuss the concepts of weighted average and the time period used to assess value on observable inputs, because those areas are not clear as currently written.

CLOSING REMARKS

PCC Partnership Accounting Vote

The PCC Chair thanked everyone for their attentive participation and brought up the discussion from the closed session about a project on Partnership Accounting currently on the PCC's research agenda. The PCC expressed the view that there was not much appetite to move forward with this project. FASB staff summarized the main issues the PCC had considered with partnership accounting in the past. The PCC Chair held a vote to determine whether the PCC was interested in adding the project to the active agenda or taking it off the research agenda. All PCC members were in favor of removing it from the research agenda.

The PCC Chair indicated that there were no further topics on the formal agenda for the meeting and adjourned the meeting.