

## MINUTES OF THE DECEMBER 8, 2017 PRIVATE COMPANY COUNCIL MEETING

Location: FASB Offices  
401 Merritt 7  
Norwalk, Connecticut

Friday, December 8, 2017  
Starting Time: 10:00 a.m.  
Concluding Time: 12:25 p.m.

### **PCC Members Present:**

Beth van Bladel  
Steven Brown  
Jeffery Bryan  
Timothy Curt  
David Hirsch  
David Lomax  
Richard Reisig  
Larry Weinstock  
Candace Wright (Chair)

### **Incoming PCC Members:**

Jeremy Dillard  
Michael Minnis  
Dev Strischek

### **PCC Members Absent:**

Yan Zhang

### **FASB Board Members Present:**

Russell Golden (Chairman)  
James Kroeker (Vice-Chairman)  
Marsha Hunt  
Harold Monk  
Marc Siegel

### **FASB Board Members Absent:**

Hal Schroeder  
Christine Botosan

### **FASB Staff Present:**

Susan Coper	*Jason Bond	*Rick Cole
Jeffrey Mechanick	*John Schomburger	
Michael Cheng	*Peter Proestakes	
Cameron Bowen	*Lauren Mottley	
David Hoyer	*Carly Lapins	

\*For certain issues only.

## **Introductory Remarks**

The PCC chair welcomed the current and incoming PCC members to the Council's fourth quarter meeting. The FASB staff began the discussion by providing an update on decisions reached at the Board's September 20, 2017 meeting on the FASB Invitation to Comment, *Agenda Consultation*.

## **Cloud Computing Arrangements**

The staff provided an update on the EITF's Issue on cloud computing arrangements (CCAs) and explained the tentative conclusion reached by the EITF at its October 12, 2017 meeting. The staff sought the PCC's feedback on the EITF's tentative conclusion and potential alternatives that the EITF may consider at its January 18, 2018 meeting, including alternatives related to capitalizing renewals of a CCA.

### *Accounting for implementation costs in a CCA that is considered to be a service contract*

Six PCC members supported capitalizing only the implementation costs. Those members stated that implementation costs of a CCA should be capitalized because they are economically similar to implementation costs of on-premise software and therefore should have similar accounting treatment. However, they indicated that capitalizing the costs of the fees paid in a CCA that is considered to be a service contract would be overly complicated and not representative of what they view as a service contract.

Two PCC members indicated that they understood this Issue to be narrow in scope and that the tentative conclusion reached by the EITF appeared to expand that scope to include capitalizing executory contracts.

### *Accounting for fees in a CCA that is considered to be a service arrangement*

The PCC chair expressed her view that if the EITF were to continue with its tentative decision to allow capitalization of fees for a CCA that is considered to be a service arrangement, renewal periods should not be included in the determination of the contract term (and therefore should be capitalized) because the pace of change in technology is so fast that it may be difficult to determine whether a renewal will be exercised. This view was supported by two other PCC members. The FASB staff clarified that only reasonably certain renewals would be included in the term of the CCA under the alternatives that the EITF may discuss at its January meeting. The staff also shared feedback it had received indicating that implementation costs in CCAs typically relate both to the stated term and renewal periods, which is why many stakeholders indicated that renewals should be capitalized.

## **Financial Performance Reporting – Disaggregation of Performance Information**

The FASB staff presented the PCC members with an overview of the Financial Performance Reporting project and the results of its research on private company financial statements.

One PCC member (practitioner) commented that banks and lenders heavily influence how private companies aggregate or disaggregate income statement information. He also commented

that the staff observations from financial statements provided by audit firms should parallel the staff observations drawn from the financial statements from the Thomson Reuters' PPC Guide because many practitioners look to the PPC Guide when advising clients.

An incoming PCC member (user-academic) cautioned the staff that the data sources used in the research on private company financial statements could have a degree of information bias.

Many private companies have short-form and long-form financial statements. Short-forms used for distribution to vendors and trade creditors generally comprise the face financial statements and accompanying footnotes. Long-form financial statements used for distribution to executives and loan officers generally comprise the face financial statements, accompanying footnotes, and detailed unaudited supplementary schedules that disaggregate income statement information. Requiring greater disaggregation likely would entail changes to the short-form financial statements. Several PCC members expressed concern that this would lead to the reporting of previously undisclosed information.

An incoming PCC member (practitioner) stated that required disaggregation is not necessary because the level of access to management is much higher among private companies—making it much simpler to attain disaggregated performance information when it is necessary.

## **Open Discussion**

### *Share-based compensation*

The PCC decided to perform further outreach along with the FASB staff to better understand how users of private company financial statements view share-based compensation. The PCC Chair indicated that this outreach would inform the PCC Technical Agenda Consultation Group in developing its recommendation to the PCC.

The FASB chair suggested that the Board may want to defer its disclosure review on share-based compensation if the PCC is considering recognition and measurement alternatives because disclosures are generally considered after finalizing recognition and measurement. The FASB chair also encouraged PCC members to clearly define the issue the PCC is trying to resolve.

### *Concluding remarks*

The PCC chair concluded the meeting by thanking everyone for their time and recognizing the three outgoing PCC members, Steven Brown, Jeffery Bryan, and Larry Weinstock, who represent the last remaining members from the Council's inception in December 2012.