

Roundtable on Private Company Accounting and Reporting Issues October 11, 2011; Chicago, Illinois

Topic 1: Private Company Standard Setting

Overall the participants supported the steps taken thus far by the Board and FASB staff to address private company concerns during the standard-setting process.¹ They believe that a private company decision-making framework is very important and a step in the right direction, and that the staff did a good job of capturing the key differences between private and public companies in the FASB in Focus article. Some of the suggestions the participants brought forward were:

- Increased private company user involvement. Some suggested that a greater focus on the business purpose behind a project rather than primarily the technical reasons for it might attract more user participation.
- Outreach to credit risk officers (CRO) would provide more useful information than input from the bank's CFOs and accounting staff (who are primarily focused on the bank's financials rather than its customers). They suggested working with the Risk Management Association (RMA) to make contact with the CROs.
- More involvement by private companies in field testing.
- Consideration of the education cycle of users in determining effective dates.
- Explicit consideration of private companies when deciding on comment period and the implementation time. The deferral of effective date for private companies is seen as a very helpful step with regard to the latter.

Topic 2: Variable Interest Entities (VIE)—Accounting and Disclosures

Participants indicated that the remaining issues with the guidance on VIEs primarily involve how difficult the standards are to understand rather than the requirement to consolidate per se. They said that the obtuseness of much of the terminology, especially in the private company environment, seems to be the primary driver for diversity in practice and the use of GAAP exceptions. They suggested issuing more understandable guidance, especially for the typical private company related party leasing situation. Some suggested addressing that situation in the leasing project. [Note that these thoughts are similar to those expressed by the PCFRC at their September meeting in Las Vegas, where members indicated that there still seemed to be a significant opportunity for the FASB to provide relevant, educational guidance through some examples that are relevant for the private company sector.]

Topic 3: Interest Rate Swaps

This issue relates to "plain vanilla" interest rate swaps where the borrower has a loan with a "synthetically fixed" interest rate. The terms, underlying collateral, and counterparty are same for both the instruments, and there is a right of offset. The participants believed that the Board should look into creating an exception for these instruments, wherein they can be accounted for as one contract outside the guidance of Topic 815. (Tom Linsmeier referenced DIG Issue K-1 as a potential starting point here.) The users agreed that the current noncash adjustments and related disclosures here are not useful.

¹ At the outset of the roundtable, the chair indicated that the FAF's proposal would not be discussed at this roundtable, but at separate roundtables that the FAF itself will hold in early 2012.

Topic 4: Fair value measurements and disclosures

One of the participants mentioned that current fair value measurement and disclosure requirements related to many intangibles under Topic 805, *Business Combinations*, are very costly and do not provide relevant information to private company users. He proposed the nonrecognition of all noncontractually based intangibles—leaving such amounts instead within goodwill—as an option for private companies. However, other participants did not express agreement.

Most of the concerns expressed about fair value involved the volume and meaningfulness of disclosures, especially concerning level 3 measurements. Participants indicated that the disclosure requirements usually result in boiler plate language, and that the level 3 roll forward disclosure in particular does not provide useful information for private company users.

Topic 5: Other disclosure matters

Several participants commented on the general volume of disclosures, fair value and other, noting their excessiveness, especially in a private company environment where users generally have a greater degree of access to management and are looking more for “red flags” to identify where such additional discussions are needed.

In terms of what’s currently not in the notes that should be, a participant mentioned that the Board should consider requiring disclosure of “confidence level” in connection with probability weighted measurements, which are frequently used in the new standards.

Topic 6: Other issues

A participant mentioned that the Board should reexamine the multiple definitions of “nonpublic entity” that are in the Codification, with the aim of standardization.

FASB Roundtable Meeting Participant List
Private Company Accounting and Reporting Issues
October 11, 2011

Meeting Participants

Name	Affiliation
John Brazzale	Northern Trust Company – User
Michael Cain	Frost Bank – User
Dave Christensen	USAA – Preparer
Richard Day	McGladrey & Pullen – Firm
Marc Delametter	QuikTrip – Preparer
Barbara Dennison	Selden Fox, Ltd. – Firm
Tom Farrell	Associated Bank – User
William Hupp	Adams Street Partners – User
Michael Minnis	University of Chicago Booth School of Business – Educator
John Moriarty	Liberty Mutual Surety – User
Ralph Nach	SkillSmart, LLC – Educator
Jeff Nicholson	FirstMerit Bank N.A. – User
Rosemary Roser	National Football League – Preparer
Philip Santarelli	ParenteBeard, LLC – Firm
William Schramm	PricewaterhouseCoopers LLP – Firm
Jeffery Watson	Blackman Kallick, LLP – Firm

FASB Board Members

Tom Linsmeier
Hal Schroeder
Larry Smith

FASB Staff

Jeff Mechanick (Roundtable Chairman), Assistant Director
Paul Glotzer, Project Manager
Judy O'Dell, Chair – Private Company Financial Reporting Committee
Rahul Gupta, Practice Fellow
Sean Nolan, Postgraduate Technical Assistant