

Roundtable on Private Company Accounting and Reporting Issues October 17, 2011; San Francisco, California

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 The participants also commended the staff on the decision-making framework, and they believe that the framework is focusing on the main points of difference between public and nonpublic entities. Some of the suggestions the participants brought forward were:

- Increased outreach channels for preparers. Some suggested reaching them through state societies, the AICPA, trade associations, and they also commented that the electronic feedback form is very useful. Some users also suggested that a survey form of outreach can be implemented, which would help in reaching out to small preparers. (For example, a survey could ask constituents to rate the changes on a scale of 1-5).
- Users specifically mentioned that it would help to get an annual newsletter that includes a business case for a new or revised standard that is applicable to their industry.
- Updates for users of final standards. Users preferred to receive updates when a project is final to understand how the project would impact the financial statements. One user suggested providing YouTube videos explaining the changes.
- More involvement by private companies in field testing.
- Smaller firms participating in external reviews of proposed and final Accounting Standard Updates need sufficient lead-time.

Topic 2: Variable Interest Entities (VIE)

Credit lenders indicated that the VIE guidance often makes analyzing the financial statements confusing because it is difficult to see where the cash flows are coming from. One CPA firm participant suggested providing information in the notes rather than consolidation. One surety participant stated that sureties are generally in favor of consolidation and FASB Interpretation No. 46, Consolidation of Variable Interest Entities, although he did say that his company occasionally allows GAAP exceptions for Interpretation 46. A few of the participants noted that the lack of implementation guidance for private companies is a problem. One firm practitioner noted that Interpretation 46 is not troubling, and the revisions made to the consolidation guidance since the original issuance of Interpretation 46, such as noncontrolling interests, have helped to make the standard easier to apply.

[Note that some of 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

All credit lenders agreed that variable rate loans with interest rate swaps are sold frequently, but so are fixed rate loans. The credit lenders described the various structured loans with variable-to-fixed interest rate swaps that are sold to clients, but one credit lender added that most interest rate swaps are “plain-vanilla” where the borrower has a loan with a “synthetically fixed” interest rate. The lenders also stated that the use of “plain-vanilla” swaps to synthetically fix the interest rate has increased because of an

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.

opportunity for them to take higher margins, and this might change if the interest rate environment changes.

A few participants believed that the Board should look into creating an exception for these instruments, but many pointed out the difficulty of how to describe the exception, or where to draw the line. A few users stated that the income statement impact of interest rate swaps sometimes makes it more difficult to compare trends for the entity, and it might help if it were broken out as a separate line item. One user stated that he is more concerned with the income statement impact than the balance sheet impact, and would rather just have a disclosure that the interest rate swap exists.

Topic 4: Level 3 Fair Value Measurement and Disclosures

One participant emphasized that fair value is relevant for companies that are in the business of managing fair value, but for other businesses it's not that relevant and often difficult for those companies to obtain the expertise to provide fair value. One participant explained that it would be beneficial if disclosures were based on the activity of the entity. A few participants specifically mentioned that the level 3 roll forward disclosures in particular do not provide useful information for private company users.

Topic 5: Equity Issues

Several participants commented that the judgment involved in the factors for stock-based compensation is substantial and the amount of disclosures is difficult. Although many participants were concerned about the amount of judgment and unreliable assumptions of a Black Scholes model, most agreed that it is still a model that can be applied. So, it's better than an alternative, complicated, fair value measurement. Users stated that they back out the stock-based compensation because the only cost to the company is the dilution of the shares and they're focused on cash flows. The preparers suggested that this standard should be analyzed under the decision-making framework, once that is finalized.

A few participants, one especially, stated that the current debt-equity accounting is broken. Specifically, two participants pointed out that the accounting for convertible preferred stock that is recognized as a liability is misleading. They view preferred stock as equity.

Topic 6: Disclosures - General

A few participants indicated that certain disclosures are too voluminous in cases when the company has little activity in that area. For example, a manufacturing company that has a substantial amount of assets in inventory will provide few disclosures about the inventory, but if they issue a small amount of stock-based compensation, they are required to provide several pages of disclosures. Also, a few of the participants commented that there are too many disclosures related to fair value, stock-based compensation, and nonconsolidated VIEs.

In terms of what's currently not in the notes that should be, participants suggested disclosures about foreign exchange risk, liquidity risk, uncertainties, subsequent events, and related parties. Most of the participants, including users, did not think that management should make an assertion about its ability to continue as a going concern, however increased risk disclosures would be helpful, rather than a reliance on auditors to comment on the going concern of the entity. Participants also supported the disclosure objective related to the appropriateness of certain disclosures that is being added to the new standards. However they stated that the objective generally loses its prominence and entities end up using the checklist approach instead of following the objective to come up with disclosures.

FASB Roundtable Meeting Participant List
Private Company Accounting and Reporting Issues
October 17, 2011

Meeting Participants

Name	Affiliation
Jeff Brown	Moss Adams – Firm
Karen Burns	Sensiba San Filippo, LLP – Firm
Jon Dalpoggetto	Dalpoggetto & Company, CPAs - Firm
Paul Duren	City National Bank - User
Angella Eckert	MarkMonitor – Preparer
Greg Hildebrand	Amalfi Semiconductor – Preparer
Mark Hillhouse	HSBC – User
Tim Lovoy	Deloitte – Firm
Michael Maher	US Venture Partners – User
Steve Roddie	Inscodico – User
Marc Scoles	Grant Thornton – Firm
Scott Waite	Patelco Credit Union – Preparer
Wil Woo	Capital Group Companies, Inc. – Preparer

FASB Board Members

Daryl Buck
Russ Golden
Marc Siegel

FASB Staff

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