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October 31, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-230

Re: Invitation to Comment, *Private Company Decision-Making Framework*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to respond to the FASB's invitation to comment (ITC) on its discussion paper, *Private Company Decision-Making Framework*.

We appreciate the FASB's efforts to address the accounting and financial reporting needs of private companies. We generally support the proposed framework that the FASB and Private Company Council (PCC) would use to determine whether modifications or exceptions to existing and proposed accounting standards are warranted for private companies. We have concerns about certain aspects of the proposed framework, however, the most of significant of which we have described below.

Starting Point for Private-Company Accounting Standards

Although the proposed framework lists factors for determining how standards for public and private companies should differ, it does not explicitly note criteria that may indicate when there should *not* be a difference or explicitly provide, as a starting point for standard setting, a rebuttable presumption that standards for private and public companies should be the same.

Consideration of whether private-company accounting standards should differ from those for public companies should start with a rebuttable presumption that accounting principles should be the same for both public and private companies. Starting with this presumption could potentially improve accounting standards for all companies. If standards are identified that might be considered unduly complex for private companies, failure to overcome the presumption could indicate that the standards might also be unduly complex for public companies. Standard setting could therefore be improved overall, and unnecessary differences could be prevented.

“Labeling of GAAP” Concept

Current differences between standards for public and private companies are not yet pervasive or significant enough to warrant a different reference in financial statements regarding labeling of the specific GAAP applied. Application of the proposed framework and the work of the PCC could, in the future, result in the application by public and private companies of significantly different standards as a result of exceptions or modifications for private companies in areas that include (1) recognition and measurement, (2) disclosure, (3) presentation, and (4) transition or effective date. We believe that

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confusion by users would be minimized if companies disclosed instances in which they have applied the set of exceptions or modifications for private companies. For example, a company should clearly state whether its financial statements have been prepared in accordance with U.S. GAAP for private companies or with U.S. GAAP for public companies. In addition, supplemental disclosure in the critical accounting polices note detailing the specific exceptions or modifications the company applied to its financial statements and related disclosures would generally be helpful to users.

Other Considerations

While it may be implied in the ITC, the framework should explicitly acknowledge that any private-company modifications to the *FASB Accounting Standards Codification* (the “Codification”) generally should be consistent with the conceptual framework. In addition, there should be a hierarchy of types of exceptions and modifications for private companies that takes into account the frequency with which such amendments might be needed (i.e., the hierarchy would recognize that amendments as a result of differences related to recognition and measurement should occur less frequently than those related to disclosure, transition, and effective dates).

In addition, the framework’s questions should be in a hierarchy of importance, with greater emphasis placed on those that focus on “relevance to users” and “ownership and capital structure” and less emphasis placed on questions about “availability and knowledge of resources” and “access to management.”

Interaction Between Private-Company and Public-Company Financial Reporting

The framework should also address the financial reporting impact of “unwinding” approved exceptions or modifications in situations in which a private company subsequently decides to become public. In such cases, the FASB should consider working with the SEC to determine the process and protocols for making this transition.

Furthermore, the framework should address situations in which a public company has investments in private companies that are accounted for under the equity method. In certain instances, the public company may not have access to the information it needs to “convert” the equity method accounting of the investee from a private-company basis to a public-company basis. In such situations, it is uncertain whether the public company could assert that its accounting complies with U.S. GAAP for public companies.

The appendix to this letter contains our responses to several of the ITC’s questions for respondents.

Deloitte & Touche LLP appreciates your consideration of our responses. If you have any questions, please contact Stuart Moss at (203) 761-3042.

Yours truly,
Deloitte & Touche LLP

cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

2. *Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If it has not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.*

Response:

We believe the staff has identified and focused on the appropriate differential factors between private companies and public companies in developing the framework.

3. *Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?*

Response:

We generally agree that the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private-company financial statements in a more cost-effective manner. However, we believe that when finalizing the framework, the staff should also consider the concerns we described in the body of this letter regarding (1) a starting point for private-company accounting standards, (2) the “labeling of GAAP” concept, (3) the interaction between private-company and public-company financial reporting, and (4) certain other aspects of the proposed framework.

4. *Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?*

Response:

We agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow, because this guidance is presumed to be relevant to financial statement users of both public and private companies operating in those industries. However, because the guidance in the Codification’s industry topics can be different for private and public companies, there may be instances in which this presumption should be overcome.

5. *Do the different areas of the framework appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?*

Response:

While the framework describes the primary information needs of many private-company financial statement users and the ability of those users to access management, it does not take into account (1) larger private companies that are operating in a manner similar to public companies and (2) private companies that expect to go public in the near future. In these cases, the informational needs of private-company financial statement users may differ from those of other users of private-company financial statements (as contemplated by the framework). In addition, for larger private companies, the presumption that additional information can be obtained by financial statement users through their access to management may not be appropriate.

6. *Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?*

Response:

As noted in the body of this letter, we believe there should be a hierarchy of types of exceptions and modifications for private companies that takes into account the frequency with which such amendments might be needed (i.e., the hierarchy would recognize that amendments as a result of differences related to recognition and measurement should occur less frequently than those related to disclosure, transition, and effective dates).

We believe that the staff has identified appropriate questions for the Board and PCC to consider when applying the recognition and measurement component of the framework. The framework's questions should be arranged in a hierarchy of importance, with a greater emphasis placed on those that focus on "relevance to users" and "ownership and capital structure" and less emphasis placed on questions about "availability and knowledge of resources" and "access to management."

7. *Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?*

Response:

We believe that the staff has identified the appropriate areas of disclosure focus by private-company financial statement users for the Board and PCC to consider when determining whether exceptions or modifications in disclosure might be warranted. However, as noted in the body of this letter, private companies should disclose which set of standards they have applied.

8. *Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?*

Response:

We believe that private companies generally should apply the same display guidance as public companies.

9. *Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred effective date, do you agree that a private company should*

have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?

Response:

We believe that the transition period granted to private companies on adopting new guidance should be determined on a case-by-case basis and that a bright line “one-year deferral beyond the annual period required for public companies” would not be appropriate. Ideally, public and private companies would adopt the standards at the same time, which would enhance comparability. However, if complex guidance is issued later in the year, there might not be enough time for private-company personnel to be educated on its application in the current reporting period. Conversely, there may be instances in which it would not be too burdensome or costly for a private company to adopt the new guidance in the same period as a public company. For example, a one year-deferral is not appropriate for relatively simple accounting guidance issued early in the calendar year. The Board should analyze comments received by private-company financial statement preparers and users to help it make this determination.

10. *Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?*

Response:

We agree with the staff’s recommendation that some circumstances may warrant consideration of different transition methods for private companies, and we believe that the staff has identified the appropriate considerations for the Board and PCC to evaluate when making this determination.

11. *Do you agree with the basis for the Board’s tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8–B23 in Appendix B)? If not, why?*

Response:

We agree with the basis of the Board’s tentative decisions about the types of companies that should be included in the scope of the framework, as detailed in paragraphs B8–B23 of the ITC.

12. *Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.*

Response:

We agree with the Board’s tentative decisions on entities that would be excluded from the private-company decision-making framework, as detailed in paragraphs B6 and B7 of the ITC. We have not identified other types of entities that the Board should consider when determining the types of companies to include in the scope of the framework. We look forward to reviewing the Board’s decision regarding a proposed definition of a “private company” in the near future.

13a. *Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you*

separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.

13b. Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13(a).

Response:

Generally, we believe that the work of the PCC and application of the proposed framework will result in a set of standards for private companies and that companies should apply either the full set of standards for private companies or the full set of standards for public companies (i.e., companies should not select portions from each set).

However, we recognize that in setting standards for private companies, the PCC and FASB may, in certain cases, decide to include alternatives in private-company guidance, and that one of these alternatives may be consistent with guidance that applies to public companies.