

FASB Framework For Private Companies

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Respondent information

Type of entity or individual:

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Questions and responses

1. Please indicate whether you are a financial statement preparer, user, or public accountant, or if you are a different type of stakeholder, please specify. Please indicate if you are both a preparer and a user of financial statements.

Academic

2. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your business and its size. If applicable, describe any relevant prior experience in preparing financial statements for private companies or public companies.

n/a

3. If you are a user of financial statements, please indicate in what capacity (for example, investor or lender) and whether you primarily use financial statements of private companies or both private companies and public companies.

When I am using financial statements, I analyze them for academic/educational purposes or as a retail investor.

4. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on private companies or both private companies and public companies.

5. 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.

Yes.

6. 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?

No. I believe the staff fails to recognize the value of the more intimate relationship between private companies and those that provide their funding. Additionally, for those private companies for which net income flows to the individual owners, the staff's proposals fail to consider the strong influence of taxation on the owners decisions. Instead, the staff is more influenced by maintaining a consistent financial accounting and reporting model between public companies and private companies, possibly because, as we all know, many private companies consider "going public" as some point.

7. 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?

No. I believe that relevant disclosures should provide a roadmap to comparison with the public company competitors, which in many cases are much larger and operate with a different financing model.

8. 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?

Yes, I believe the different areas are identified, however, I believe that the staff weighted those areas differently than primary users of private financial statements might weigh those factors. This is an area that, I believe the staff must explore as move towards developing an exposure draft of an FASB ASC revision.

9. 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?

Certainly the list seems complete. But, when I read it, I fail to see how it relates specifically to private companies. In fact, it just seems like a hodge-podge of important factors that a task force of diverse financial statement users would come up with not so much in focusing on private companies but rather in considering the broad range of information that is important to them in considering providing financing or investing in any company, public or private.

10. 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?

More or less, yes, given the restrictions set out in paragraph 2.3. That's where the staff establishes the framework for the areas of importance. I think the list in 2.3 is too long and includes several of the framing issues that cannot be easily identified and used by a standard-setter, i.e. 2.3c, 2.3d, and 2.3g. Again, if you establish a task force of private company financial statement users, they might agree with the list because, yes all of those factors are important to at least some of them. But, how do you establish "the knowledge and familiarity" of the diverse group of users that analyze private company financial statements. Of course you cannot.

With respect to paragraph 2.8, I believe the list is reasonable. However, I would ask the PCC and the Board to consider disclosures that address the flow of resources between the company and its financiers and other related parties/organizations, such as those discussed in paragraph 2.9 because that's where private companies can differ from their public company counterparts.

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

This is a great question. Intuitively, I would say no. However, I cannot offer a defense of my position. For me, private company managers deal with their financiers more directly than do public company managers. Thus, their financiers have access to more information than does those of public companies (fair disclosure regulations donot apply and, thus, managers can be more revealing to a specific investor or lender). So, then I wonder what the purpose of a balance sheet, income statement or cash flow statement really is. Those statements would seem to be more confirmatory than revealing. Also, at least for the on-going financiers, private company financial statements might not result in a flourish of "investment market-related" activity as does the related public company financial statements. So, given that the purpose is more confirmatory, would the users prefer more information or information that is presented in a different manner. I would think so, but, again I do not have evidence of my view.

12. 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?

No opinion.

13. 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?

No opinion.

14. 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?

Yes. In fact, I applaud the Board on being more thorough than the approach taken by the IASB in their IFRS for SMEs framework.

15. 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.

No.

16. 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.

I do not support allowing private companies an option to apply a difference in recognition and measurement guidance. I agree with those users of private company financial statements that favor consistency and comparability. However, I accept the view of preparers about the relevance to their users of certain existing recognition and measurement standards. Thus, the Board might allow them some option in electing to continue applying identified recognition and measurement approaches that they, the preparer has already identified as not being relevant for their user group. However, with respect to future Board guidance, I believe that they must make arguments about the relevance of that guidance and allow the PCC and Board the opportunity to decide on the application of the new recognition and measurement guidance to a private companies, in general. So, I do not support allowing individual private company prepares the option to apply new recognition and measurement guidance. In essence, I believe the PCC and the Board must make those determinations. In making their determinations, the PCC and the Board must consider the importance of consistency or reporting by a private company and comparability of reported information among private companies.

17. 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).

With respect to display, no. However, I am less concerned about differences in selected disclosures because, as has been acknowledged, financiers of private companies can always request more information.

With respect to transition and effective date selection, I have no opinion.

Additional comments. Please provide any additional comments on the proposed Update or any comments on this electronic feedback process below.

Certainly, as the staff proceeds on this issue, I believe they must prioritize, or weight, the issues the Board and PCC should consider when deliberating on recognition and measurement issues. Apparently, their charts in paragraph 2.10 and paragraph 3.4 address priority for disclosure and display. I have some disagreement with both charts, mainly because cost is not prioritized. But, I would like to see a similar decision framework for differential recognition and measurement consideration.
