

Technical Director  
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### **MODIFICATIONS BASED ON 'ACCESS TO MANAGEMENT' ARE NOT GAAP**

The PCC claims in the Private Company Decision-Framework(Framework) that they are not creating a separate GAAP. However, the Framework makes a very important distinction between the subject of GAAP and the subject of the Framework. The subject of GAAP is General Purpose EXTERNAL Financial Reporting (see CS #8, OB5). The subject of the Framework deletes the term EXTERNAL and refers to General Purpose Financial Statements. The change in subject apparently is to accommodate Access to Management.

The difference in the subject of GAAP and the Framework creates two different standard-setting objectives, and thus, two difference sets of standards. It is inappropriate to label financial statements based on standards modified because of Access to Management as GAAP financial statements.

Although 1.9 of the Framework states that Access to Management should not be the dominant factor in making modifications to recognition and measurement GAAP, this conflicts with other statements in the Framework-seeDF 5,BC 7, etc. Also observing the video of the PCC meetings, it is obvious that Access to Management is key to positions expressed by PCC members in support of modifying GAAP.

Another discussion in the Framework that separates GAAP from that which will exist based on the Framework is the creation of Primary and Nonprimary users in BC 7 and BC 20.

Indicator 1.5h is inappropriate for modifying GAAP. Adjustments to GAAP based on Access to Management are non-GAAP adjustments and financial statements using these adjustments (even if developed by the PCC and cleared by the FASB) are not GAAP based statements. If adjustments based on Access to Management are used to develop financial statements they should be treated as Adjusted (non-GAAP) financial statements.

Modifications to GAAP based on cost/benefit considerations (as done by the FASB for years) are appropriately labeled GAAP. The PCC should assist the FASB in identifying opportunities for these areas.

## **ACCOUNTING POLICY DISCLOSURES**

Because it appears that private companies will be able to select some but not all modifications for Private Companies, the Accounting Policy footnote should be divided into accounting policies not based on Private Company modifications and accounting policies modified for Private Companies. This division will help users understand and consider the noncomparability of financial statements that will result from the increased policy selections and public and private financial statements.

I find it ironic that the Framework acknowledges the COST to users (in BC 15) as a basis for modifications but ignores the much bigger COST to users for the user to understand the basis on which the financial statements are being prepared because of the increase in options. It is also interesting that one PCC member said he liked accounting options but did not like financial statements based on multiple choice selections. I think the PCC modifications will result in multiple choice selections!

## **AUDITOR REPORT CONSIDERATIONS**

I hope the FASB and PCC are in contact with auditor-standard setters. An audit report on a private company should identify the reporting entity as being a private company. If GAAP modified for Private Companies is used, the report should acknowledge the use of modifications. Words like "based on selected GAAP policies and Private Company modifications" should be considered.

## **COMMENTS ON SPECIFIC PARAGRAPHS**

1.1 and 1.8-- Details about the research and outreach that supports statements in discussion papers should be made available to PCC members and FASB board members. Also, just as comment letters are made available on the FASB website, questionnaires and the result of surveys should be posted. The way a survey is worded and conducted is critical to evaluating the results of the survey.

BC 13- This discussions should lead the PCC to modifying GAAP to require CONSOLIDATING financial statements for private companies.

BC 14- This discussion raises the issue of whether the acceptance of qualified financial statements is based on the user's Access to Management or prior knowledge about the reporting entity. If so, the acceptance is not an indicator for a GAAP modification. I believe the ability of a reporting entity to negotiate with users to accept nonGAAP financial statements is a much more cost effective and straight forward way to deal with private company accounting issues than the PCC modifying GAAP.

Contact me at [ewtrott@gmail.com](mailto:ewtrott@gmail.com) if you want to discuss these comments

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