



June 20, 2013

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

File Reference No. 2013-250

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the “Invitation to Comment”), which the Financial Accounting Standards Board (FASB) and the Private Company Council (PCC) will use in developing U.S. GAAP for private companies. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

1. *Please describe the individual or organization responding to this Invitation to Comment.*

The organization and operating procedures of the Committee are outlined in Appendix A to this letter. However, the majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors, accountants in industry, or in academia.

2. *Do you agree that this guide is based on the appropriate differential factors between private companies and public companies (see paragraphs DF1– DF13)? If 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.*

While there may be additional differential factors between private companies and public companies, the Committee believes they are minimal in nature. The Committee believes the staff has identified and focused on the appropriate “Significant Differential Factors” between private companies and public companies that are presented in paragraphs DF1 – DF13.

3. *Question 3: Overall, do you agree that this guide would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If it does not, what improvements can be made to achieve those objectives?*

The Committee supports most of the staff recommendations and believe those recommendations will result in a framework that would provide relevant information in a more cost-effective manner for private companies. However, some members of our Committee recommend that differences in recognition and measurement, as discussed below in Question 6, be avoided.

4. *With respect to industry-specific guidance:*

- a) *Do you agree that this guide appropriately considers industry-specific accounting guidance for private companies? That is, should private companies follow the same industry-specific guidance that public companies are required to follow in instances in which the Board and the PCC determine that the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?*

The Committee believes that both private companies and public companies should continue to apply the required industry guidance due to characteristics and nuances relevant and unique to those industries. Industry-specific guidance, by its very nature, is of critical importance to the users of financial statements of entities within those industries, and should be required regardless of an entity's ownership structure.

- b) *Do you think factors other than user relevance, such as cost and complexity, should be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance?*

The Committee believes that private companies and public companies should apply the same industry guidance due to characteristics and nuances relevant and unique to those industries and alternatives should not be provided within industry-specific guidance.

- c) *Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?*

The Committee believes that private companies and public companies should apply the same industry-specific guidance related to recognition and measurement and disclosure due to characteristics and nuances relevant and unique to those industries.

As an example, differences would result in a construction contractor's financials requiring additional disclosures because if disclosures were not provided in the financial statements there is a presumption that any users can gather that information via other means which would result in no savings in compliance overhead. In fact, this may add additional overhead for an independent accountant as they may be asked to provide assurance on these non-financial statement disclosures to financial statement users.

As another example, insurance industry disclosures are already required for a GAAP to STAT reconciliation. To then add to this disclosure and have a GAAP to STAT to private company GAAP would increase compliance overhead for this industry as well.

Given the potential impacts of changing industry accounting standards, we encourage the FASB and PCC to specifically seek out those parties who are responsible for industry specific guidance (e.g. the National Association of Insurance Commissioners who regulate the insurance industry) to gain their perspectives on the proposed industry-specific guidance.

5. *a) Do the different sections of this guide appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, b) and does the disclosure section appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BC45 and BC46)? If not, why?*
- a) The Committee believes the main purpose of the modified private company GAAP is to address the needs of private company financial statement users. As documented in the Discussion Paper and communicated during several outreach efforts by the Board, many private company financial statement users have direct access to company management and can obtain additional information from the company. Users of public company financial statements do not have the same level of access to management and have a higher level of reliance on the information contained in the financial statements.
 - b) In our experience, users of private company financial statements often perform only a high-level review of the detailed notes before then having more-detailed discussions with the private company's management. The *red-flag approach* as described in paragraphs BC45 and BC46 implies that the amount of prior, non-financial statement disclosure that is made to a particular preparer's users would influence the extent of financial statement disclosure necessary to satisfy GAAP disclosure requirements. This additional subjectivity regarding the necessary depth of financial statement disclosure increases the difficulty for auditors to apply their judgment, as it may not be feasible to test and verify that a preparer's limited disclosures are appropriate given prior non-financial statement disclosures to its users. This additional subjectivity regarding the necessary depth of financial statement disclosure could also hinder new users of private company financial statements (i.e., new lenders) who may not have the previous knowledge necessary to trigger a more focused dialogue with management.
6. *Paragraph 1.5 includes the following questions for the Board and the PCC to consider in the recognition and measurement area of the guide:*
- a) *1.5(e) Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?*
 - b) *1.5(h) Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?*
 - c) *1.5(i) Is the lag between the year-end reporting date and the date financial statements are issued and made available to users likely to significantly dilute the relevance of the information resulting from the guidance?*

Do you believe that the questions listed above are necessary for considering alternatives for private companies within recognition and measurement guidance? Or are the other questions in paragraph 1.5 sufficient for considering when alternative recognition and measurement guidance is appropriate for private companies within U.S. GAAP?

The Committee believes that questions 1.5(e), 1.5(h), and 1.5(i) are not necessary for considering alternatives for private companies within recognition and measurement guidance. Indeed, the three questions would be difficult to answer in a generalized manner. Furthermore, we believe the other questions in paragraph 1.5 are sufficient for considering when alternative recognition and measurement guidance is appropriate for private companies within U.S. GAAP. However, as a Committee, we are divided on whether the proposed framework should include consideration of alternatives in recognition and measurement.

Certain Committee members find it troubling that the underlying accounting for a transaction would differ depending on whether an entity is a private company or public company. Those Committee members believe that recognition and measurement requirements should not be different for private and public companies. Those Committee members believe that the critical issue is providing disclosure and financial statement presentation relief to private companies. If recognition and measurement issues are considered too burdensome for a private company, equal consideration should be given to public company preparers regarding the cost-benefit and relevance of the guidance in question. A public company should be afforded the same relief as a private company (see ASU 2011-08| Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment). Additionally, if a private company is not able to apply the recognition and measurement principles properly under GAAP, they may be better suited for an alternative basis of accounting, such as the AICPA’s Financial Reporting Framework for Small- and Medium-sized Entities.

Other Committee members believe that some recognition and measurement differences between public and private companies may be appropriate. One of the key differences between the users of public and private companies may be users’ evaluation of balance sheets as a tool to assess credit risk versus expectations of the entity’s future cash flows. Private company financial statement users who are creditors may prefer financial statements that exclude the consolidation of variable interest entities of whose assets the creditor has no access.

A second example is measuring the change in the fair value of certain derivatives, such as interest rate swaps, in accordance with Topic 820. Some of the requirements of Topic 820, for example, the consideration of the effect of own and counterparty credit risk on the measurement, require technical valuation skills that are not found within many private companies. In addition, the information generated through application of those requirements may not be relevant to the users of the private company’s financial statements, in particular in situations where the primary user is the same bank that provided the loan and the related interest rate swap. An alternative measurement attribute (e.g. present value) for such derivatives may be justified on cost-benefit grounds. Alternatively, permitting the swap and related debt to be presented as a single synthetic debt instrument at amortized cost may produce an informative result while avoiding the costs and complexities of current hedge accounting requirements.

A third example where differences may be appropriate is the consideration of probability when applying recognition and measurement guidance. For example, the impairment proposals resulting from the financial instruments project would require the probabilistic consideration of at least two possible outcomes when evaluating expected credit losses. That contrasts with other areas of GAAP where consideration of probability is included as part of the recognition criteria – for example, the recognition of contingent assets and liabilities. It may be justifiable for private companies to consider probability as part of recognition when accounting for some items, while public companies would consider probability as part of measurement.

Another issue related to recognition and measurement is recognition of the effects of remeasurement. More specifically, should changes in fair values be recognized, disclosed or ignored? If recognized on the balance sheet, should the corresponding debit or credit go to net income or OCI? Should private companies be able to report the effects differently (e.g. disclose changes in fair value instead of recognizing the changes in OCI or net income)?

7. *Do you agree that a private company generally should be eligible to select the alternatives within recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement?*

As a Committee, we are divided on whether the proposed framework should take an all or nothing approach. Some members believe that an all or nothing approach is not needed and private

companies generally should be eligible to select the alternatives within recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement.

Other members believe that should the FASB decide that recognition or measurement differences are necessary for certain items, those private companies that elect to apply those differences should be required to apply all existing and future differences in recognition or measurement guidance. Allowing an entity to selectively choose their recognition or measurement guidance would create an increased burden for preparers and auditors in the form of expanded accounting policy disclosures and a potential reduction in the comparability of disclosures between entities.

It is not uncommon for lenders to private companies to accept financial statements without footnote disclosures. In those situations, if private entities are allowed to selectively choose recognition or measurement guidance, the result will be financial statements for which the comparability between entities will be impossible. The lack of comparability between entities will likely result in lenders requiring that those entities to provide footnote disclosures and increased disclosure requirements would result in increased compliance costs for such preparers.

For those situations in which it is more meaningful for an entity and its financial statement users to select recognition or measurement guidance that spans public entity and private entity standards, we believe the entity should describe such differences in the form of a GAAP departure.

Do you agree that, in certain circumstances, the Board and the PCC may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? If not, why?

Private companies should not have an option. If private companies are allowed to choose which differences from which they would like to apply and which they would not, this would only add to the complexity and documentation length of the disclosures as the financials would have to clearly state which modifications/differences, the preparer used versus stating only that the financial statements were prepared under GAAP or private company modified GAAP. Preparers who wish to use portions of the private company modified GAAP, could be given the option to choose another comprehensive basis of accounting (OCBOA) method, such as the AICPA model previously mentioned in Question 6.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Brian Chmiel, CPA	Crowe Horwath LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Robert Sledge, CPA	KPMG LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Christopher Cameron, CPA	Kutchins Robbins & Diamond Ltd
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Gary Mills, CPA	Frost, Ruttenberg & Rothblatt PC
Tad Render, CPA	Miller Cooper & Company Ltd
Steven Roiland, CPA	Kessler Orlean Silver & Co., PC
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs

Industry:

Rose Cammarata, CPA	CME Group Inc.
Farah Hollenbeck, CPA	Abbott Laboratories
Joshua Lance, CPA	N Pritzker Capital Management LLC
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda Rzepka, CPA (Vice Chair)	Jet Support Services, Inc.
Richard Tarapchak, CPA	Navistar International Corporation

Educators:

Martin Coe, CPA	Western Illinois University
James Fuehrmeyer, Jr., CPA	University of Notre Dame

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
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