



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

June 26, 2013

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: April 15, 2013 Invitation to Comment: *Private Company Decision-Making Framework—A Guide for Evaluating Financial Accounting and Reporting for Private Companies* [File Reference No. 2013-250]

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC is comprised of 13 practitioners from CPA firms of varying sizes ranging from less than 10 professionals to more than 1,000 professionals. All member firms focus on audits of nonpublic entities; some firms also audit public companies or public employee benefit plans.

TIC has reviewed the ITC and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC issued a comment letter dated November 9, 2012 on the original ITC, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*. TIC agrees with the significant changes that have been incorporated into the 2013 ITC. TIC has also re-evaluated its comments from the original comment letter and carried forward any comments that the committee would like the Board and the PCC to reconsider. Other suggested amendments and clarifications to the ITC are provided below for the Board's consideration.

TIC believes the proposed guide is sufficiently robust to be used immediately, especially in the development of new proposed Accounting Standards Updates (ASUs). TIC

therefore encourages the Board and the PCC to apply its provisions to the two exposure drafts relating to Financial Instruments (Credit Losses and Recognition and Measurement) before they are issued as final ASUs.

SPECIFIC COMMENTS

Question 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.*

Yes, TIC believes the guide is based on the appropriate differential factors between private companies and public companies.

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?*

Yes, with one exception, TIC believes the guide would lead to decisions that adequately address concerns about the costs and benefits that impact private companies.

When a private company has applied an alternative transition method, paragraph 5.3 of the proposed guide requires disclosure of qualitative information about how the amendments required by a FASB ASU would affect the comparison of its current-period financial statements with its prior-period financial statements.

However, the last sentence of paragraph 5.3 would also require the Board and the PCC to consider an additional requirement for the disclosure of quantitative information “depending on the nature of the amendment to existing guidance.” TIC believes this additional requirement would defeat the purpose of permitting the application of an alternative transition method. In most cases, the quantitative information could not be assembled without effectively expending the same level of effort as would be required for a full retrospective transition method. A requirement to calculate such quantitative information on a line-by-line basis would be onerous for preparers and would not be cost beneficial. TIC therefore recommends that the last sentence of paragraph 5.3 be deleted from the final guide.

Question 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?*

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

As indicated in its November 9, 2012 comment letter on the original ITC, TIC believes, as a general rule, that industry-specific accounting standards should be followed consistently by both private and public companies in the same industry to promote comparability and transparency for the users of these financial statements. Consistent application of industry-specific standards also discourages companies that operate in certain industries from designing or choreographing their capital and ownership structures solely for the optionality of accounting implications.

However, differences can still exist as to what is relevant for financial statement users of public companies v. private companies within a particular industry. For example, measuring investment properties at fair value for certain real estate entities may be relevant for the needs of public company investors and analysts. However, private company lenders will disregard fair value measurements; appraisal value is more relevant for their needs (as discussed in paragraph BC12).

Therefore, TIC supports the removal of the presumption from the original ITC that all accounting standards are equally relevant to public companies and private companies simply because the entities are operating in the same specialized industry. Companies in the same industry will typically benchmark themselves against their peers, not the public company leader of the industry. TIC also agrees with the updated language in the 2013 ITC (paragraphs 1.11-1.12) that would require the Board to determine whether the same recognition and measurement guidance is relevant to financial statement users of both public and private companies operating within certain industries. When differences in relevance exist, exemptions or practical expedients (depending on the level of difference) should be considered for such industries.

TIC also agrees with the changes made in the 2013 ITC to consider disclosure differences for private companies in specialized industries if certain disclosures would not be relevant to private company users. Alternatives can still provide relevant information to users as long as they ensure comparability and consistency among peers and offer adequate disclosures for industry-specific requirements.

Relevance is a key consideration that governs recognition/measurement and disclosures, irrespective of the type of entity or the industry in which it operates. Of course, relevance is a relative factor. Where relevance exists but is not present at a high level, other factors, especially the cost of providing a disclosure or a particular recognition/measurement principle, should be considered. The Board and the PCC should also strive to reduce complexity for private companies wherever possible.

Question 5: *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, 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?*

Generally yes, the various sections of the guide appropriately describe and consider the primary information needs of private company users and the ability of those users to access management. TIC also believes the description of the red-flag approach is adequate.

Question 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:*

1.5(e) Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?

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?

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?

Yes, TIC believes questions 1.5(e), 1.5(h) and 1.5(i) above are necessary for considering recognition and measurement alternatives for private companies.

As noted in TIC's comment letter on the 2012 ITC, the ITC would benefit from a process flowchart for recognition and measurement guidance. The omission of the flowchart was notable since flowcharts have been provided for all of the other types of guidance addressed in the ITC. TIC believes this would be a valuable tool for the Board and the PCC to use as they evaluate proposed and existing guidance and recommends that a recognition and measurement flowchart be included in the final guide. The flowchart should include process elements for recognition and measurement considerations for industry-specific guidance, as was done in the disclosure flowchart. Alternatively, separate flowcharts for each area relating to industry-specific guidance could be prepared.

Question 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? 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?

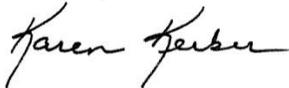
Yes, TIC agrees that the above conclusions provide the appropriate balance in the selection of recognition and measurement alternatives. TIC recommends some additional guidance limiting a preparer's ability to switch back-and-forth among acceptable alternatives. TIC believes this additional requirement is needed to ensure comparability of a preparer's financial statements over time.

OTHER COMMENTS

TIC believes the Board's constituents in the private company arena, including those who comment on the Board's exposure drafts, would benefit from the PCC's perspective on the respective accounting issues that affect private companies prior to the exposure period for new proposed ASUs. The recent exposure drafts on Financial Instruments would have been an interesting trial run for the private company decision-making framework, but there is no indication that the framework was applied to them. It is extremely important that private company issues receive due consideration prior to finalizing these and other major standards. Otherwise, necessary changes may be very difficult to bring about after the fact and would be more disruptive to constituents at that stage. TIC strongly encourages the Board and PCC to engage in such discussions as the Board re-deliberates the Financial Instruments EDs.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees