

FASB Technical Director and FAF Trustees  
August 15, 2013

PCC - 13 - 01A and PCC -13 - 01B

**My Evaluation of the PCC: It does NOT pass a COST/BENEFIT Test**

With all the comments on cost/benefit considerations in the two EDs, I decided to step back and consider whether the PCC as a quasi-standard -setter passes such a test. I do not believe the standard-setting role of the PCC passes. It is NOT a cost effective way for private company accounting practitioners to obtain the relief from GAAP that they desire.

The following is the on-going costs that I considered.

1. The loss to the User community of reasonably comparable financial statements because of the increase in alternatives provided by the PCC. For Users who wish to compare private companies for lending and investment decisions, the cost and effort to obtain comparability has been shifted from the accounting practitioner to the User.
2. Cost of the FASB and FAF staff to support the PCC.
3. Time and effort of FASB Boardmembers to consider additional alternatives for a select group of entities.
4. Educational time and effort to teach yet another basis of accounting -- which will include OCBA's, FRF for SMEs, GAAP , GAAP plus PCC Alternatives, IFRS and IFRS for SME.
5. The loss of information in financial statements and the potential increase in interest cost and lower entity valuations because of the reduced information.

The benefits I considered are:

1. Obtaining input and ideas from the perspective of accounting practitioners, Users, etc. involved with private companies.
2. Some reduced preparer and accounting practitioner effort and cost.

I do not believe the PCC alternatives will satisfy the desire of accounting practitioners to avoid various GAAP standards. I expect GAAP exceptions and non-GAAP financial statements to be used by private companies. I have no problem with that action.

Private companies control which Users get to use their financial statements. Private companies can negotiate the basis of accounting to be used (including GAAP exceptions), and the amount of access to additional information they will make available. This is very

much like the negotiations that now go on as to whether the financial statements will be audited, reviewed, or compiled- with or without footnotes.

This is a much more cost effective way to deal with the desire of accounting practitioners to avoid particular GAAP issues.

I do not believe the input that is attributed to Users by the PCC is adequate. It is important to understand from what perspective Users provide their views. From my experience with Users of private company financial statements, they respond as a User with significant prior knowledge about a private company and a history of obtaining additional financial information outside the financial statements directly from the private company.

That is NOT a valid response for a standard-setter setting standards for General Purpose External Financial Statements. It is a response of a User able to negotiate with the private company as noted above. The PCC should seek input from Users from both perspectives to understand the difference.

### **Specific comments on PCC - 13 -01A**

Did you mean to modify business combination accounting for IPR&D?

I do not believe the assertions in BC 25 are correct. The identification of imbedded intangibles will require extensive effort and this alternative will not result in the effort reduction desired by many accounting practitioners. Won't quantification of the imbedded intangibles be necessary to determine the Primary intangible as required by 13- 01B?

Similar to the proposal in 13 -01B, won't you need to have a requirement to identify the cost of an imbedded intangible that is sold if the sale does not constitute a business? Otherwise goodwill will be overstated and an excessive gain is recorded.

Because PCC - 13 -01A causes the makeup of goodwill to be expanded and PCC -13 -01B is designed to accommodate that action, should the two PCC proposals( 13-01A and 13-01B) be treated as a package and be required to be selected together?

See the comment from the first section of this letter about input from Users.

### **Specific comments on PCC -13- 01B**

If Users you have talked to are not obtaining information about a private company's expected future cash flows from a goodwill impairment charge, I do not understand why not. A goodwill impairment charge is the very essence of a signal from the reporting entity that the expected future cash flows of a business subject to the charge have decreased. Isn't that what Users say they want information about.

As a Boardmember involved with the study of goodwill that led to the issuance of SFAS 142, it was clear to me that amortization of goodwill provides NO information to anyone. The ED proposal distorts and reduces decision useful information.

The proposal to allocate goodwill to businesses that are disposed of is appropriate.

However does this not negate the so called simplification of not testing goodwill at a reporting unit level.

What fair value is referred to in 350-20-40-11? It should be the fair value at acquisition.

See comment from the first section of this letter about the input from Users.

Contact me at **ewtrott@gmail.com** if you would like to discuss. Please distribute this letter to the FAF Trustees.

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