

FASB Technical Director
October 7, 2013

PCC 13 - 02

I have been underwhelmed by the interest shown by Preparers and Users in all of the PCC proposed alternatives. As I expected, the interest in PCC alternatives is from accounting practitioners who prepare and audit, review, or compile financial statements for private companies. I have also been underwhelmed by the discussion and evidence in the proposed PCC alternatives of how the alternatives improve financial information for the benefit of the Users.

In my September 24, 2012 comment letter on the first exposure of the Decision-Making Framework, I acknowledged that ownership and capital structure of private companies differed from that of public companies and that the existence of commonly controlled companies in the private company area was much more prevalent. I stated that this difference should result in MORE information being provided by private companies rather than less as proposed in PCC 13 - 02. Commonly controlled companies present challenges to Users of separate company financial statements when other commonly controlled companies interact or could interact with the reporting company. Also, contracts between commonly controlled companies are subject to modifications to accomplish desires of the controlling party. These contracts have implicit elements that make them difficult to understand and rely on.

If the PCC is serious about improving financial reporting for private companies (and not just making the accounting practitioner's work easier), they would be proposing to require CONSOLIDATING financial statements in situations covered by the proposed alternative. Also, they should be proposing more disclosures about the existence, activities, and relationships between commonly controlled companies.

I hope the PCC changes its focus from the convenience of the accounting practitioner to that of improving financial reporting for the User of private company financial statements. GAAP for private companies should NOT become the buffet of accounting choices like that of the AICPA's Financial Reporting Framework for Small and Medium Size Entities. Such a GAAP or Framework is neither comprehensive nor does it provide useful, understandable or comparable financial statements.

Contact me at ewtrott@gmail.com if you would like to discuss.

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