

March 18, 2015

Comments on Three-Year Assessment of PCC

Dear Trustees:

I appreciate the Trustees performing a three-year assessment of the Private Company Council (PCC). However, I believe the questions about the creation of PCC Alternatives should be:

1. Is providing authorized GAAP exceptions as part of GAAP (Alternatives) the most efficient and effective way for private companies to reflect non-regular-GAAP accounting that they negotiate with their primary financial statement Users?
2. Is the creation of Alternatives adding unnecessary complexity and confusion to financial reporting?

To address the above questions I believe efforts should be made to determine:

- a. how often Alternatives are being used,
- b. are financial statement Users aware that the financial statements are using Alternatives, and
- c. whether the use of Alternatives result in a lower cost of capital and/or greater access to capital for private companies than reporting with non-authorized-regular GAAP exceptions.

One major financial reporting difference for private

companies versus public companies is that private companies, to some extent, control who has access to their financial statements. This provides private companies the ability to negotiate the form and content of the financial statements with their primary financial statement Users. If the financial reporting is not in conformity with regular GAAP, the financial statements and auditor's report (whether for an audit, review or compilation), if applicable, will clearly point that out. Also, all financial statement Users will understand that the financial statements are non-regular-GAAP reporting, including those not party to the negotiations of the form and content of the statements.

I hope the "look back" efforts to develop Alternatives is over. But I expect the PCC to push for additional Alternatives as new standards are issued. I also expect Alternatives not to eliminate non-regular-GAAP reporting by private companies using non-authorized-GAAP exceptions. For example, if a new standard on lessee accounting requires leases to be reported on balance sheets and an Alternative is not provided to avoid this reporting (I do not believe it would be appropriate for such an Alternative to be provided), I expect many private companies will report on a non-authorized-GAAP basis.

As I have communicated with you (see attached letter), I believe the creation of Alternatives does not pass a cost/benefit test. I hope the Trustees will consider whether the cost of the PCC and their Alternatives is justified by benefits to the capital markets as part of this assessment.

Although regular GAAP reporting has a number of accounting policy differences available, one of the benefits of GAAP reporting is a reasonable degree of comparability between reporting entities. The creation of Alternatives and the mix and match way they can be applied greatly reduces comparability while still being called GAAP reporting. I believe this dilutes the GAAP brand and creates unnecessary complexity for the statement preparer, auditor and financial statement User. The use of non-authorized-GAAP exceptions for private companies to report in the form and content they negotiate with their primary financial statement User and the clear communication of the exceptions to all Users as required by current reporting and reports by auditors is less costly and more effective and efficient. It does not dilute the GAAP brand nor does it signal a weakness in regular GAAP as some claim. Regular GAAP is based on general-purpose financial reporting and not negotiated reporting.

As to whether the PCC is a valuable advisory body, I believe that is a question for the FASB board members and staff. I hope it is a valuable advisory body for the FASB to hear different views and perspectives about issues that the FASB is exploring. However a consensus or majority view on an issue by the PCC should NOT be the objective of an advisory body. It should be an opportunity for the PCC members to air and debate issues and for the FASB board and staff to ask questions and learn. A lone voice in an advisory body that raises a key

issue or proposes a solution for the FASB to consider is the value of such efforts.

I am happy to meet with you or answer any questions you have about my comments. I have also attached an earlier letter that includes suggestions of ways to make the use of Alternatives clear to users of the financial statements.

Please contact me at ewtrott@gmail.com.

Thank You very much.

Edward W Trott

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.

Edward W. Trott

Technical Director
File 2013-250
June 7,2013

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 if you want to discuss these comments

Edward W. Trott