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May 8, 2015

Board of Trustees
Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Request for Comment, *Three-Year Review of the Private Company Council*

Dear Trustees:

Deloitte & Touche LLP appreciates the opportunity to comment on the FAF's *Three-Year Review of the Private Company Council* (PCC).

We support the FAF's efforts to (1) seek comments on the PCC's past role in standard setting and (2) solicit and assess feedback on the PCC's future role. We believe that such a process is important to the development of U.S. GAAP and ensures that all constituencies are considered.

As noted in past correspondence, we have generally been supportive of the PCC and the private-company decision-making framework. The efforts of the PCC have had a positive effect on standard setting in that they have put a spotlight on complexity in U.S. GAAP. Such complexity was one of the factors that led the FASB to address the simplification of standards in several narrow, short-term projects. We have supported these projects and believe that they will provide significant improvements for all involved in financial reporting.

As we have also previously indicated, we support the PCC's role in addressing topics in which the needs of users of private-company financial statements differ from those of users of public business entity (PBE) financial statements. However, we remain concerned about the potential for unnecessary divergence between public and private companies, particularly with respect to recognition and measurement, since such divergence creates unwarranted complexity. For example, we have reservations about simplifying standards for only private companies when the U.S. GAAP topics addressed are also complex for PBEs and there is no identified difference between the needs of users of private-company financial statements and those of users of PBE financial statements.

Looking to the future, we are unaware of other topics in U.S. GAAP, particularly with respect to recognition and measurement, for which the needs of users of private-company financial statements differ from those of users of PBE financial statements. Thus, we agree that a shift in the PCC's focus from "look-back" projects to serving the FASB in an advisory capacity is appropriate. We believe that the PCC can play a positive role in standard setting by (1) continuing to identify accounting topics that potentially involve unnecessary complexity

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and (2) advising the FASB on aspects of financial reporting unique to private companies, thus promoting consideration of the needs of private companies and their financial statement users.

Our responses to the questions for stakeholders are provided in Appendix A. Additional considerations are discussed in Appendix B.

If you have any questions concerning our comments, please contact Adrian Mills at (203) 761-3208.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

Appendix A
Deloitte & Touche LLP
Responses to Questions for Stakeholders

***Question 1:** A primary responsibility of the PCC has been to review and propose GAAP alternatives that will sufficiently address the needs of users of private company financial statements. Do you believe that the PCC has been successful in proposing alternatives within GAAP that address the needs of users of private company financial statements? Please elaborate.*

It is difficult to gauge the success of the accounting alternatives developed to date since they either are not yet effective or have just recently become effective. In general, we have supported the PCC's efforts and have taken the view that its standards as endorsed by the FASB will accomplish the objective of reducing some of the costs and complexity associated with private companies' financial reporting while maintaining the quality of information provided to users of their financial statements. However, we do not have direct knowledge of the user community's views. A post-implementation review of these standards in the near future may be warranted.

To some degree, the introduction of accounting alternatives has, in turn, introduced further complications to U.S. GAAP. Specifically, it has introduced additional variations in fundamental accounting methods (e.g., recognition and measurement of goodwill) and has given rise to potentially complex transition issues when an entity no longer qualifies for an accounting alternative. (For more on these matters, see our response to Question 2 below and our discussion in Appendix B.) We believe that if new accounting alternatives are being considered, the PCC should first conduct outreach to understand users' views on whether the creation of additional accounting alternatives, on a collective basis, risks significantly increasing the complexity of U.S. GAAP.

***Question 2:** Do you believe the PCC's review of areas of existing GAAP that require reconsideration for private companies (referred to as the "look-back" phase) is complete or almost complete? Please elaborate on what will indicate that the look-back phase (for existing GAAP) is complete.*

Yes, we believe that the look-back is complete. The extensive outreach conducted by the PCC properly identified those topics in which significant reductions in cost and complexity could reasonably be achieved by the development of accounting alternatives that are appropriate for private companies. We are unaware of any further topics in U.S. GAAP that warrant look-back projects requiring specific standard setting by the PCC itself. Accordingly, we recommend that in developing additional relief for private companies, the PCC should continue to (1) work in tandem with the FASB on the FASB's active projects and (2) suggest FASB agenda items, such as additional projects that could be undertaken under the simplification initiative to improve U.S. GAAP for public and private companies alike.

By driving improvements to U.S. GAAP that potentially benefit all entities, the PCC would effectively serve a larger portion of the private companies it represents. Currently, the population of private companies that can reasonably consider adopting the accounting alternatives is limited. For example, many of our private-company clients are entities whose owners may be anticipating either an IPO or the sale of the business (or a minority stake) to a public company. As a result of such a transaction, the financial statements of a private company may be included in an SEC filing, in which case it is our understanding that the SEC would expect that entity to unwind the

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accounting alternatives from its historical financial statements. The likelihood of eventually entering into a transaction of this nature has steered many private companies away from adopting the accounting alternatives. Therefore, many private companies have not benefited from the development of those alternatives. In Appendix B, we suggest some initiatives that the PCC might consider to ease transition issues.

We continue to believe that if additional look-back projects are identified, there should be a high threshold for differences pertaining to recognition and measurement (i.e., compared with the threshold for differences pertaining to presentation, disclosure, and effective dates), and any resulting alternatives should not generally deviate from the FASB's *Conceptual Framework for Financial Reporting*. Further, as noted in our response to Question 1 above, the PCC should consider whether additional exceptions related to recognition and measurement are, on a collective basis, further complicating U.S. GAAP for financial statement users. In addition, for reasons indicated in the paragraph above, further cost-benefit analysis may be warranted, particularly in relation to the population of private companies that would realistically benefit from the development of additional accounting alternatives. Finally, a PCC look-back project should proceed only if the FASB has considered the results of outreach and concluded that it will not commence a project of its own on the same topic in the near term.

If additional look-back projects are not identified, we support redefining the PCC's roles and responsibilities as those of an adviser to the FASB (and not a standard setter).

Question 3: *Another key responsibility for the PCC is to serve as FASB's primary advisory body on the appropriate treatment for private companies on issues that the FASB is actively considering. Do you believe that the PCC has been effective in assisting the FASB in its standard-setting process for active projects? Please explain.*

Yes. We believe that the FASB's interactions with the PCC have helped members of the Board and its staff better understand the concerns of private companies.

Question 4: *What improvements, if any, are needed to ensure the PCC is an effective advisory body to the FASB on issues that the FASB is actively considering?*

The PCC should ensure that its members' views and input are supported by outreach and discussions with private-company constituents, especially financial statement users. The determination of whether specific exceptions in U.S. GAAP for private companies are warranted largely rests on consideration of the needs of financial statement users, as illustrated in the private-company decision-making framework. Accordingly, it is essential for the PCC to develop a comprehensive understanding of those user needs (1) before a project is started, (2) during project deliberations, and (3) after the project has been in place for a time (i.e., the PCC should perform a review of the project's effectiveness that takes the views of financial statement users into account).

Question 5: *Since the establishment of the PCC, do you believe that the FASB has been appropriately responsive to the needs of private companies and the recommendations from the PCC?*

Yes. We believe that the FASB has been appropriately responsive to recommendations of the PCC.

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Question 6: *Do you believe that further changes to the standard-setting process for private companies are warranted? Please elaborate.*

We support the “possible improvements” identified. For example, the PCC should shift its focus from standard setting to advising on FASB projects. Such an approach has the potential to benefit both private companies and PBEs since the standard setting for both types of entities will occur at the same time (this is consistent with the approach being taken for the share-based compensation project that was initially considered for the PCC’s agenda). Further, as noted in our response to Question 2 above, we believe that it is appropriate to fully recharacterize the PCC’s role as that of an adviser to the FASB (and not a standard setter) when all look-back projects are complete.

Question 7: *Do you have any suggestions regarding changes to the size, composition, term length, or responsibilities of the PCC?*

None noted.

Question 8: *When the Trustees established the PCC in 2012, the Trustees envisioned that their existing Standard-Setting Process Oversight Committee would assume the oversight responsibilities for the PCC after three years. Is there a reason that the Standard-Setting Process Oversight Committee should not assume those responsibilities in 2016?*

We recommend that the Private Company Review Committee (PCRC) continue its oversight of the PCC. The PCRC was effective in holding both the PCC and the FASB specifically accountable for incorporating the input of private companies in the development of U.S. GAAP. Without a separate oversight committee, there is a risk that the role of the PCC in the standard-setting process will be diluted.

Question 9: *What is your reaction to the possible improvements included in the prior section?*

We generally agree with the possible improvements identified.

Question 10: *What other improvements to the PCC or its process would you suggest?*

None noted.

Appendix B
Deloitte & Touche LLP
Other Considerations

A possible topic that the PCC may want to consider recommending for the FASB's agenda is providing guidance for entities that elect private-company accounting alternatives and later meet the definition of a PBE. Not all circumstances will be subject to the SEC's views on transition. For example, if a private company becomes a PBE because its shares begin trading in an over-the-counter market, it is unclear whether the entity is required to unwind the accounting alternatives from its historical financial statements, and such uncertainty could give rise to diversity in practice.

In addition, the PCC might seek to gain a clearer understanding of the SEC's views (including the basis for those views) on unwinding the accounting alternatives and whether any relief can be sought (similar to that afforded to emerging growth companies regarding transition and effective dates). For example, the election of the goodwill accounting alternative by a private company that qualifies as a significant acquisition for an SEC registrant must be unwound for purposes of including the private company's financial statements in the registrant's filing in accordance with SEC Regulation S-X, Rule 3-05. However, since the purchase transaction itself will give rise to a new basis (and the target's goodwill accounting potentially unwound anyway in the pro formas), the unwinding of the accounting alternative in the private company's financial statements would provide little benefit to users of the acquirer's financial statements while potentially adding significant cost and complexity to the transaction.