McGladrey LLP
One South Wacker Drive, Suite 500
Chicago, IL 60606
www.mcgladrey.com

McGladrey

May 8, 2015

PCC Review
Financial Accounting Foundation
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Ladies and Gentlemen:

McGladrey LLP is pleased to comment on the FAF's *Three-Year Review of the Private Company Council*. Overall, we support the PCC's mission and efforts to date. We believe the private company accounting alternatives resulting from the PCC's activities have been of significant benefit to many private companies and the users of their financial statements. We are also encouraged by the PCC's activities leading to FASB projects that may reduce complexity across a broader base of entities. While we believe the PCC is off to a good start, we believe there are some limited improvements that could be made to further ensure the needs of private companies, and the users of their financial statements, are appropriately considered in the standard-setting process. These improvements are included below in our responses to your questions for comment.

Responses to Questions for Comment

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.*

   Overall, we believe the PCC has been successful in identifying alternatives that have helped reduce the cost and complexity of preparing private company financial statements, while still providing users of the financial statements with relevant and decision-useful information. As expected, there were also some PCC initiatives that led to broader FASB projects that will affect more entities. We believe this is an important development in the overall efforts undertaken by the FASB to simplify financial reporting without negatively impacting financial statement users.

   We do, however, believe that some of the alternatives proposed by the PCC, and ultimately incorporated in GAAP, have stopped short of their maximum potential benefit due to concerns over some unique situations in which a user's needs may not have been fully met by the information that would have been presented in the financial statements had the PCC pursued the maximum potential benefit of the alternative. In those situations, we believe more consideration should have been given to the benefits of the many over the concerns of a few. One of the underlying principles of the private company framework is the interaction between management and the users of the financial statements. In practice, this principle could help to alleviate the concerns of a few given that the alternatives are elective. As such, if the user of the financial statements is not getting the necessary information, they could discuss the situation with management and either find an alternative source for the information or encourage management not to elect the alternative. As an example, one of the arguments against expanding the scope of the private company intangible asset alternative was that in limited situations lenders could be utilizing some identified intangible assets as collateral in a lending relationship. For the vast majority of private companies, the valuation of intangible assets does not provide users of the private companies' financial statements with decision-useful information due to the fact that the recorded amount of the intangible asset only represents its actual fair value at the date of acquisition or impairment due to the subsequent amortization of the intangible asset and the general prohibition under GAAP to recognize internally-generated intangible assets. In addition, the concerns related to the impact on comparability of different recognition criteria are a debatable argument in the context of limiting the scope of the private company intangible asset alternative. Consider, for example, the fact that today, two otherwise identical entities will have significantly different financial statement presentations if one was recently acquired and accounted for as a business combination, with its assets and liabilities recognized and measured at fair value, and the other was organically grown with its assets and liabilities being valued at historical cost. Limiting the scope of the intangible asset alternative does not necessarily help with comparability even in situations where otherwise identical entities were both acquired and accounted for as business combinations given the inherent lack of comparability introduced when an entity has accounting alternatives from which to choose. In other words, the private company intangible asset alternative will result in a lack of comparability regardless of how far it goes in eliminating the intangible assets that must be separately recognized in a business combination.

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.*

   We believe the PCC has addressed the major items that were initially identified through its outreach efforts during the look-back phase. However, we also believe it is important not to consider the look-back phase complete. With the continually changing environment in which businesses operate and the evolving nature of the accounting standards themselves and how they are implemented in practice, there could be other items in existing GAAP that will come to the surface over time and potentially warrant consideration by the PCC. As such, we think it is important for the ongoing goals and objectives of the PCC to incorporate monitoring and seeking input on existing standards to determine whether they may warrant additional attention from a private company perspective.

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.*

   We believe the PCC has been effective in assisting the FASB in its standard-setting process. We also believe the FASB's standard-setting process has benefited from the input of individuals focused on the needs of private companies and the users of their financial statements.

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?*

   For the PCC to be an effective advisory body, it is critical that they continue to seek input from the preparers and users of private company financial statements. Historically, this group of preparers and users as a whole has not been as actively involved in the standard-setting process as other groups, which is evidenced by the limited number of comment letters received from them. While we believe the town hall meetings have been effective in obtaining input from important constituents, we also believe consideration should be given to leveraging some of the knowledge and resources resident in audit firms, the AICPA or other organizations that have a concentration of private company clients or members. We also believe consideration should be given to organizing an informal national survey group to respond to specific targeted questions in an effort to obtain additional input on potential agenda items and (or) potential alternatives identified for an issue. Anonymous, targeted surveys that do not require a significant investment of time on the part of respondents with limited resources may be an effective way to obtain input from those interested in providing input, but that do not have the time to provide a formal public comment letter on a proposal.

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?*

   We believe the FASB has been responsive to the proposals and feedback provided by the PCC. In doing so, we believe the FASB has also been responsive to the needs of private companies. In addition, we believe the FASB has been responsive to the call for simplification of standards across all companies through their simplification initiative. We are supportive of continued simplification efforts across all companies.

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

   We do not believe that significant additional changes are warranted at this time. See responses to questions 1, 2, 4, 9 and 10 for suggested improvements in certain parts of the process.

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

   We support consideration of staggered terms, which would allow for turnover of approximately one-third of the members annually. Having staggered terms will allow for fresh ideas and energy from a substantive number of new members, while still maintaining the institutional knowledge and experience of the PCC by carrying over two-thirds of the members. In addition, we suggest the PCC's membership be expanded from 10 to 12 members to allow for further distribution of the work load and expansion of the network for feedback and perspectives.

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 support transitioning the oversight responsibilities for the PCC to the existing Standard-Setting Process Oversight Committee provided its focus appropriately emphasizes the unique perspectives of users and preparers of private company financial statements.

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

   In general, we support implementing the possible improvements noted in the request for comment. In particular, we believe it is very important for PCC members to have adequate preparation time for meetings, including time to vet the issues within their networks. As a result, we are particularly supportive of providing for organized and regular communication between the FASB staff and the PCC members between PCC meetings and allowing for sufficient time between distribution of PCC meeting materials and the meeting itself. In addition, as suggested in our response to question 4, we believe it is important for the PCC to continue to find ways to obtain input from a broad base of representatives in the private company community. More so than some of the other possible improvements noted in the request for comment, we believe a larger, informal national survey group may increase the overall effectiveness and efficiency of gathering input from relevant parties, ensure a balanced source of information from a large crosssection of private company interests and provide PCC members with reliable feedback on which to guide their activities.

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

    While it may not be directly within the authority of the PCC or FASB, we encourage discussions with the SEC staff and other regulators to assist in transitioning from a private company accounting alternative to the accounting methods required for public business entities (PBE). One of the major reasons that many companies are reluctant to avail themselves of the private company accounting alternatives is the potential complexity involved in retroactively restating prior period financial statements should they become a PBE. While in certain circumstances it may be relevant to require retroactive restatement of prior periods, there may be other circumstances where doing so is not as relevant. For example, we believe consideration should be given to providing a practical expedient that allows for prospective goodwill impairment testing when transitioning from the private company goodwill alternative provided the goodwill was not impaired at the date that the entity no longer qualified or chose to utilize the alternative. For another example, we believe consideration should be given to providing practical expedients for transitioning from the private company goodwill alternative when an entity has been acquired by a public company and is required to file its financial statements in accordance with Rule 3-05 of Regulation S-X. One practical expedient worth consideration in this scenario might be using historical carryover basis information. We believe this may be appropriate given that from the public company acquirer's perspective, the financial statements post acquisition will reflect fair value in accordance with ASC 805. As such, the benefit of recasting goodwill (and intangible assets if the private company intangible asset alternative is also elected) in the historical financial statements of the private company acquiree is less relevant than the proforma presentation included in the filing.

    We also believe that a mechanism needs to be put in place to address situations in which a private company accounting alternative creates a practice issue or exacerbates an existing practice issue. For example, with respect to the private company intangible asset alternative, an issue was raised during the PCC's discussions related to whether a noncompete agreement should be accounted for as part of a business combination or separate from a business combination. While this issue existed in practice before contemplation of the private company intangible asset alternative, the practical effects of treating it one way or the other were not significant. However, with introduction of the private company intangible asset alternative, the practical effects of treating it one way or the other became more significant. This issue was not addressed as part of the standard-setting process and, as a result, there may be diversity in practice with respect to how noncompete agreements are being treated by entities that elect the private company intangible asset alternative. We believe a mechanism should be put in place that ensures an issue such as this has been appropriately considered and addressed before moving on with the standard-setting process.

We appreciate the opportunity to provide feedback for the FAF's *Three-Year Review of the Private Company Council* and would be pleased to respond to any questions the FAF or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017.

Sincerely,

McGladrey LLP

McGladrey LLP