



May 11, 2015

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

Grant Thornton LLP appreciates the opportunity to provide our comments in connection with the three-year review of the Private Company Council (PCC). We support the Foundation's efforts on behalf of private companies by establishing the PCC and have received positive feedback on its mission and efforts in our surveys. We believe that the effectiveness of the PCC and the benefits of the standards to constituents could be enhanced by addressing issues with the transition provisions for electing or revoking the option to adopt PCC alternatives, as discussed in our response to question 10.

Our responses to the Questions for Respondents follow.

**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.**

Although we believe that the results to date have generally been successful, some of the alternatives have had less impact than might have been expected. The most successful efforts of the PCC to date have been ASU 2014-02, *Accounting for Goodwill*, and ASU 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination*. Both of those updates addressed issues that increased complexity and the cost of financial reporting without contributing significantly to the usefulness of the information.

Other efforts have been less successful. In our experience, the impact of applying ASU 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, was frequently nullified by application of the continuing involvement provisions of ASC 360-20, *Real Estate Sales*, when the assets involved had been the subject of a sale and leaseback or a guarantee by the lessee of debt that has recourse only to the leased asset results in classification as a capital lease based on the provisions of ASC 840-40, *Sale-Leaseback Transactions*. While the consequence of the guidance under ASC 360-20 may largely go away when ASU 2014-09, *Revenue from Contracts with Customers*, is effective, there would be another impact on

implementation of the proposed guidance in the leasing project. The result could lead to significant fluctuations in the content of the financial statements despite the lack of any corresponding economic activity over a period of a few years. ASU 2014-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*, provides useful relief but only in narrowly defined circumstances. Small variations in circumstances could nullify that benefit despite having little or no economic consequence to the company.

The most significant benefit of the PCC may occur in the future if its activities result in the FASB reconsidering the accounting for goodwill and intangible assets acquired in a business combination for all entities.

**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 that the review may not be complete based on further simplification efforts by the FASB. As part of the simplification initiative we favor a broad review of existing GAAP with the aim of bringing issues to the attention of the FASB or EITF that may not be raised by constituents whose primary concern is the financial statements of public companies. For example, private companies are more likely to have transactions between unconsolidated entities under common control. Also, new forms of ownership, financing, and transacting are being developed constantly, often by private companies. The “look-back” should be less of a phase and more of an ongoing activity to constantly review GAAP for continued relevance to private companies, albeit with less focus on existing GAAP and more focus on active projects. We also believe that as new standards are issued by the FASB there will be a continuous need to consider private company alternatives to existing standards. It is not reasonable to expect that all considerations of private company alternatives will be fleshed out during the standard-setting process given the limited resources of private companies.

**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 would like to see more convincing evidence that would indicate that the PCC is effectively serving as an advisory body to the FASB on the major active projects currently on the agenda. For example, we would have expected to see more evidence of the involvement of the PCC in the discussion on April 7, 2015 on nonpublic business entity considerations on the leasing project. We suggest as part of this review a more formalized and proactive approach. Ideally, the input of the PCC would be considered during deliberations or redeliberations and documented in a staff memorandum. Specific proposals and whether those proposals were accepted or rejected for private companies or for all reporting entities should be documented in the Basis for Conclusions.

**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?**

A more proactive approach to assisting the FASB could take several forms, including assisting the FASB in identifying and evaluating issues of potential concern to private companies in the design phase, participating in outreach to stakeholders, observing or participating in education sessions, proposing questions to be included in exposure documents, reviewing comments for potential issues, and performing an overall review of major projects nearing completion. While PCC working groups could also participate by providing comment letters on proposed standards, we envision the role of the PCC to be more integrated with the work of the FASB than would be evidenced by a comment letter, an avenue of expression that is available to all stakeholders and the public.

**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 that the FASB has been more responsive to the needs of private companies since the recommendations from the blue ribbon commission that lead to creation of the PCC and appropriately responsive to the recommendations of the PCC. We believe that there is still room for improvement in addressing the needs of private companies.

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

We would prefer that consideration of the issues from the perspective of private companies be part of the overall standard-setting process instead of a separate process for private companies. We believe that would benefit all constituents in the standard-setting process as many of the issues raised by private companies have broader applicability. A more proactive and transparent involvement of the PCC in standard setting of the FASB would help improve the overall standard-setting process.

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

We are not aware of the need for changes to the size, composition, or term length of the PCC at this time. We would, however, favor a more proactive approach to assisting the FASB and better integration of the PCC and its perspectives into the overall standard-setting process.

**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?**

Ultimately the Trustees must determine whether a single oversight committee that represents diverse perspectives or more focused oversight committees would better fulfill their responsibilities. We could make a case for either alternative but would be inclined to favor a single oversight committee.

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

We agree with the general direction indicated in the possible improvements but overall would favor a more robust and proactive role for the PCC in advising the FASB and greater transparency in how that role is fulfilled. For example, we would favor an advisory role with involvement that goes beyond providing comment letters, an option open to the general public.

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

In addition to the improvements noted in question 4, we believe it is critically important to establish a framework for entering and exiting the PCC alternatives when a company has or plans to have a change in status. Current ASUs treat transition ad hoc, creating uncertainty about how the standards would or could be applied in the future when new circumstances arise. We suggest that the PCC develop a framework for adopting or discontinuing PCC alternatives that is both comprehensive and flexible enough to permit private companies to take full advantage of the alternatives and accommodates a wide range of circumstances, including changes that would favor initiation or discontinuance of their use.

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We would be pleased to discuss our comments with you. If you have any questions, please contact John Hepp, Partner, Accounting Principles Consulting Group, at 312.602.8050 or [john.hepp@us.gt.com](mailto:john.hepp@us.gt.com); or Mark Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or [mark.scoles@us.gt.com](mailto:mark.scoles@us.gt.com).

Sincerely,  
/s/ Grant Thornton LLP