

May 11, 2015

Via e-mail: [PCCReview@f-a-f.org](mailto:PCCReview@f-a-f.org)

PCC Review  
Financial Accounting Foundation  
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**RE: Three-Year Review of the Private Company Council**

To Financial Accounting Foundation Board of Trustees:

We appreciate this opportunity to share our views on the effectiveness and future role of the Private Company Council (PCC) in setting standards for private companies. Further, we would like to express our appreciation to the PCC and the Financial Accounting Foundation (FAF) Board of Trustees (Trustees) for their continued efforts to consider and improve accounting issues that pertain to private companies and the users of their financial statements.

**Moss Adams LLP** is the one of the 15 largest accounting and consulting firms in the United States. Our staff of over 2,000 includes more than 250 partners. Founded in 1913, Moss Adams LLP provides accounting, tax, and consulting services to public and private middle-market businesses, not-for-profit and governmental organizations.

Overall, we believe the PCC has been reasonably successful in proposing alternatives within Generally Accepted Accounting Principles (GAAP) that address the needs of both private company financial statement users and preparers. In our view, each of the four Accounting Standards Updates (ASUs) issued to date that have provided optional accounting alternatives for private companies have provided private companies with an option to reduce the cost and complexity of financial reporting, while maintaining user relevant information in their financial statements. Additionally, it is our view that the PCC has largely been effective in fulfilling its role as an advisory body to the FASB in the standard-setting process.

We are generally supportive of each of the possible improvements and other topics identified by the Trustees in the *Three-Year Review of the Private Company Council, Request for Comment*. However, we have made the following more specific observations that we believe should be provided additional consideration by the Trustees and PCC.

**Guidance for Potential Future Unwinding of a Private Company Accounting Alternative**

As stated in each of the ASUs issued that provide for a private company accounting alternative, an entity within the scope of the amendments may elect each respective accounting alternative by making an appropriate accounting policy election (and other required disclosures). We are supportive of this approach because it requires that the election of a private company alternative be treated as a change in accounting principle and justified on the basis that it is preferable, among other things, as described in ASC 250-10-45. This approach helps to ensure that the use of accounting principles are

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Financial Accounting Foundation  
Board of Trustees  
May 11, 2015  
Page 2 of 3

consistent from one accounting period to another, enhancing the comparability of information contained in private company financial statements.

However, we recognize there are a variety of unforeseen future circumstances that may require a private company to present their financial statements in accordance with “traditional GAAP” (i.e., GAAP without the election of private company accounting alternatives) in a future period, subsequent to having elected a private company accounting alternative in a prior period.

For example, subsequent to electing a private company accounting alternative there may be changes to an entity’s financial statement users (including regulators, investors, lenders, and other creditors) that may require the private company to present financial statements as though it were a public business entity. Existing GAAP for accounting policy changes does not explicitly contemplate whether these types of future events are considered sufficient grounds for a change in accounting policy to be considered “preferable”. It is our view that the current private company accounting alternatives do not provide sufficient guidance for private companies that may encounter such circumstances in future periods.

Unwinding the effects of certain private company accounting alternatives and recasting the financial statements could prove to be very complex. For example, restating financial statements prepared using the goodwill alternative provided by ASU 2014-02 would require a retrospective annual impairment analysis as of each prior reporting period. Retrospectively performing goodwill impairment analysis is likely to be a complicated and costly evaluation.

We recommend that the PCC work with the FASB to develop specific guidance for private companies permitting a change in accounting principle away from a private company accounting alternative to traditional GAAP when requested or required to do so by an external financial statement user of the entity. It is our view that circumstances requiring restatement to un-elect private company accounting alternatives (such as those described in the preceding paragraphs) will not be infrequent over the long term. We also believe that the considerations surrounding these circumstances are unique from traditional accounting policy changes, and warrant specific guidance. It will benefit private company financial statement preparers, users and auditors alike for the FASB to provide guidance on how such changes should be made, and under what circumstances unwinding of a private company accounting alternative is appropriate, and when it is not.

### **PCC’s “Look-Back” Phase**

The four ASUs issued to date that provide for a private company accounting alternative have addressed many of the more common financial reporting complexities encountered by private companies. We do not believe, however, that the PCC’s look-back phase is necessarily complete. Although we support the PCC’s focus to assist in providing input on active FASB agenda projects, we believe there are still a variety of areas of existing GAAP that may warrant reconsideration for the needs of private companies and their financial statement users.

Some existing areas that may warrant additional attention by the PCC include accounting for related party transactions, stock based compensation, accounting for equity transactions in partnerships and LLCs (admissions, withdrawals, non-cash capital contributions, etc.), and fair value measurements. Specifically, we believe transactions between entities under common ownership (equity, debt, leases, etc.) affect private companies to a much greater extent than public entities, and may warrant differentiation as they are often less formally documented and subject to frequent change.

## MOSS ADAMS<sub>LLP</sub>

Financial Accounting Foundation  
Board of Trustees  
May 11, 2015  
Page 3 of 3

It is our view that the PCC should continually assess the needs of private companies and the users of their financial statements in a look-back manner. Although the amount of time the PCC spends on look-back issues may naturally decrease over time, we do not agree that the PCC should transition into a body whose primary function is to only provide input on active FASB agenda projects. We believe continual assessment of existing GAAP from a private company perspective is critical to the effectiveness of the PCC and the continual improvement in accounting standards.

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We hope that you find our comments and suggestions meaningful. Thank you for the opportunity to comment on the *Three-Year Review of the Private Company Council*. If you would like to discuss our comments or require further information regarding our response, please contact Bret Rutter in our Professional Practice Group at (206) 302-6866 or by e-mail at [Bret.Rutter@mossadams.com](mailto:Bret.Rutter@mossadams.com).

Respectfully,

*Moss Adams LLP*