MINUTES OF THE DECEMBER 4, 2015 PRIVATE COMPANY COUNCIL MEETING

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Friday, December 4, 2015
Starting Time: 8:30 a.m.
Concluding Time: 11:30 a.m.

PCC Members Present:
Billy Atkinson (Chair)
George Beckwith
Steve Brown
Jeffery Bryan
Mark Ellis
Thomas Groskopf
Neville Grusd
Carleton Olmanson
Diane Rubin
Larry Weinstock
*Timothy Curt
*David Lomax
*Harold Monk
*Candace Wright

FASB Board Members Present:
Russell Golden (Chair)
Daryl Buck
Tom Linsmeier
Hal Schroeder
Marc Siegel
Larry Smith

FASB Board Members Absent:
Jim Kroeker

FASB Staff Present:

Susan Cosper	**Mark Barton	**Matt Esposito
Jeffrey Mechanick	**Nick Cappiello	**Jin Koo
Michael Cheng	**Lucy Cheng	**Peter Proestakes
Christopher Dickson	**Marie Dhimmar	
Kendall Verbeek	**Jamie Dordik	

*Denotes incoming 2016 PCC Member.
**For certain issues only.

INTRODUCTORY REMARKS

Private Company Council (PCC) Chair Billy Atkinson opened the meeting, acknowledging that it would mark the final meeting with the inaugural set of PCC members. Mr. Atkinson thanked the group for a successful first three years and wished incoming members a productive term.

A PCC member discussed the PCC's Town Hall Meeting held in conjunction with the AICPA Controller's Conference in Orlando, Florida, on November 18, 2015, noting the valuable feedback received.

PCC ISSUE 15-01: EFFECTIVE DATE AND TRANSITION GUIDANCE

FASB staff members summarized feedback received on the proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), and Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a proposal of the Private Company Council)*. The PCC reached a consensus on this Issue and directed the FASB staff to bring that consensus to the FASB (the Board) for endorsement at a future Board meeting. [The Board endorsed the consensus at its December 16, 2015 meeting and directed the staff to draft an Accounting Standards Update finalizing the consensus for vote by written ballot.]

The consensus affirms the PCC's consensus-for-exposure reached at its July 21, 2015 meeting to make the guidance in Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350)*; No. 2014-03, *Derivatives and Hedging (Topic 815);* No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*; and No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Assets in a Business Combination*, effective immediately by removing their effective dates. The consensus will allow private companies to forgo an initial preferability assessment that otherwise would have been required under Topic 250, Accounting Changes and Error Corrections, upon first election of the accounting alternatives in those four Updates. Any subsequent election of those accounting alternatives will require a preferability assessment. The consensus also indefinitely extends their transition guidance.

PCC members discussed an issue raised by some comment letter respondents that the amendments in the proposed Update do not specify the reporting period in which the accounting alternatives within the scope of the proposed Update (that is, the accounting alternatives within Updates 2014-02, 2014-03, 2014-07, and 2014-18) may first be adopted. A PCC member acknowledged that there is some diversity in how the accounting alternatives afforded by those four Updates are currently being adopted. The FASB staff suggested providing clarifying guidance in the proposed Update that requires the accounting alternatives within those four Updates to be adopted consistent with the transition provisions included in those four Updates for the first year being applied. A PCC member expressed some concern that a full year of amortization would result when Update 2014-02 is adopted, but acknowledged that the proposed Update would allow sufficient flexibility to defer adoption of that accounting alternative into another year. Another PCC member expressed the view that this solution best reflects the intent of the amendments in the four Updates when they were originally drafted. The PCC reached a consensus to provide clarifying language in the final Update.

The PCC agreed that all relevant issues had been deliberated.

AGENDA PAPER – APPLYING VIE GUIDANCE TO ENTITIES UNDER COMMON CONTROL

Applying VIE Guidance to Entities under Common Control

The FASB staff discussed feedback received from outreach performed on applying variable interest entity (VIE) guidance to entities under common control. Based on that feedback, the FASB staff believes that most users agree with the results of current consolidation guidance when correctly applied; however, diversity in practice exists when VIE guidance is applied to entities under common control. Common concerns raised were that the VIE guidance is difficult to understand and apply, and that there was a lack of implementation guidance relevant to private companies.

The PCC added this project to its technical agenda and discussed two possible alternatives:

Alternative 1A: Provide clarifying guidance.
Alternative 1B: Create a scope exception for entities under common control and determine criteria (or a new model) for when these entities should be consolidated.

A Board member and many PCC members highlighted the fact that most users agree with the results of consolidation guidance when correctly applied, and a few PCC members expressed the view that the guidance should not be changed for that reason. Another Board member added that, in practice, preparers and practitioners may inappropriately consolidate entities under common control to manage litigation risk. In those cases, users would not know about the inappropriate application of VIE guidance. Many PCC members agreed that over-consolidation is a risk.

A PCC member expressed the view that common control in thinly capitalized environments is commonplace among private companies. As such, that PCC member expressed concern that GAAP currently places too much emphasis on thinly capitalized entities (as well as entities that have been bailed-out) when performing a VIE analysis. Another PCC member observed that there is no illustrative guidance for applying VIE guidance to entities under common control that could be analogized to by private companies and that the power criteria is somewhat vague. However, the PCC member who expressed that view said that, overall, the VIE guidance is conceptually sound, albeit dense.

Many PCC members expressed their support for Alternative 1A. A Board member supported adding examples of common control arrangements and suggested using the issuance of those examples as a starting point for educating stakeholders about current VIE guidance.

The PCC decided to pursue an alternative (based on Alternative 1A) to add clarifying guidance to GAAP.

Consolidating Statements

The FASB staff discussed comments received from users during outreach that unaudited consolidating statements were useful in their analyses. A few PCC members, all of whom are users, said that they placed greater emphasis on consolidating statements than consolidated statements.

Several Board and PCC members questioned whether a required consolidating statement would need to be audited. One Board member said that *supplementary data* can be required under GAAP without requiring it to be audited. One PCC member further explained that the auditor is only required to perform limited procedures to determine whether the supplementary data is fair within the context of the financial statements. Another PCC member pointed out that it could also be unaudited by providing a disclaimed opinion.

A Board member said that if consolidating statements are accepted by users in unaudited form, current stakeholders should rely on access to management and, therefore, a requirement to require consolidating statements does not need to be considered. Many PCC members agreed that consolidating statements are usually provided when asked for by users of private company financial statements and did not support requiring it. One PCC member said that requiring a consolidating statement is important because some users contacted during the staff's outreach effort expressed the view that they are not getting the full array of important information from general purpose financial statements.

A few PCC members expressed concern that requiring and providing consolidating statements as part of the financials would give too much information to users who are not lenders, such as vendors.

The PCC decided not to add this issue to its technical agenda.

DISCLOSURE FRAMEWORK – INCOME TAXES

The FASB staff presented updates on the FASB project on the disclosure review of Income Taxes (Topic 740), focusing on the project's proposed changes to-date, including effective tax-rate reconciliation. A number of PCC members expressed concern about the cost of income tax disclosure preparation, since it is largely outsourced by private companies to external accountants. While no formal vote was called, Mr. Atkinson polled the PCC on the proposed rate reconciliation requirement for private companies (which is currently required under GAAP only for public companies) to help the FASB staff get a sense of PCC members' opinions. Only one PCC member supported the proposal. For other items in the proposal, PCC members' opinions were generally mixed and members expressed the view that the other issues depend primarily on cost and complexity considerations. Some PCC members expressed the view that the unremitted foreign earnings and carryforward disclosure is largely a public company issue. A PCC member expressed concern about disaggregating taxes by jurisdiction because such disclosure may provide too much information about regional revenues to outside parties.

Many current and incoming PCC members expressed concern over the tentative decision to require private companies to provide a rate reconciliation. Many PCC members expressed concern that such a disclosure would compromise timeliness of financial report issuance. A few PCC members said that in their experience, they have never had an external party ask a question about the rate reconciliation requirement. Some PCC members expressed concern about the percentage threshold for separate line-item presentation on the rate reconciliation requirement. A PCC member expressed the view that in situations in which there is extremely low taxable income, the threshold could give rise to unintended detailed disclosures.

Several PCC members raised concerns about the usefulness of information that would be provided by the proposed rate reconciliation requirement for pass-through entities. One Board member clarified that the proposed rate reconciliation requirement does not apply to pass-through entities that do not pay taxes. Additionally, that Board member indicated that those pass-through entities that pay state and local taxes would be minimally affected because disclosure of such information would likely not be material and, thus, under the proposed disclosure requirements, would not be required to be presented. Two PCC members suggested that clarity about pass-through entities (that is, whether they are scoped in or not) would be helpful.

A few PCC members inquired how the proposed requirement for private companies to disclose a rate reconciliation originated. A Board member explained that the proposed disclosure is consistent with the Disclosure Framework and was thought by the Board to provide useful information in assessing future cash flows. A PCC member agreed and expressed support, citing that the rate reconciliation requirement improves decision usefulness. PCC members who are users said that they did not consider the rate reconciliation requirement to be useful in making decisions, and in the rare circumstances under which it might provide information, they could simply ask for tax returns. Those PCC members expressed the view that a qualitative disclosure may be sufficient. They further indicated that compliance with income tax payments is closer to what they look for in entities as it relates to income taxes. Another PCC member disagreed with the rate reconciliation requirement’s usefulness in the private company arena, requesting that the Board consider an alternative (or not proceed with the proposal). That member cited the Private Company Decision-Making Framework (Framework):

> *If the Board and the PCC determine that the disclosure of additional disaggregated information, including tabular account reconciliations, would be relevant to typical users of private company financial statements, they generally should provide disclosure alternatives that limit the requirement to a nontabular description or, in other words, a narrative (which may include both quantitative and qualitative information) that can provide users with a basic understanding of items having the most significant effect on financial statements.*

A Board member noted that members of another advisory group, composed mostly of users, said that they wanted *more* detailed analysis and that it is difficult to weigh what the PCC is advising to what that advisory group said. Another Board member said that the relevance of the proposed disclosure depends on the type of entity, and it is difficult to determine where the cutoff for disclosure should be made.

The PCC briefly discussed other Income Tax topics. Some PCC members expressed the view that information about distributions to owners for their individual income tax payments would be helpful. One PCC member asked whether the proposal would add “income taxes” as a glossary term, to which a Board member responded that such an amendment would be outside the scope of this project.

IMPROVING THE PRESENTATION OF NET PERIODIC PENSION COST AND NET PERIODIC POSTRETIREMENT BENEFIT COST

The FASB staff provided an update on the FASB project to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost and discussed the main provisions in the related proposed Accounting Standards Update, specifically addressing the proposed amendments that would present only the service cost component in the same line item or items as other current employee compensation costs and would allow only the service cost component to be eligible for capitalization. A PCC member said that such a change may be costly and complex to implement since it will necessitate system changes. That member also expressed the view that pension and postretirement cost presentation is currently conceptually similar to a “one-line consolidation,” but the proposed change would alter that model. Finally, the PCC member expressed the view that if the Board moves forward with the disaggregated reporting of net periodic pension cost and net periodic postretirement cost, other breakouts should be considered, such as presenting net cost by active employees, employees currently vested, and employees accruing benefits.

CLOSING REMARKS

Mr. Atkinson mentioned that a date for the next PCC meeting has not yet been established due to the change in the PCC’s Operating Procedures from five required meetings per year to four such meetings.

Mr. Atkinson thanked FASB members, FASB staff members, Private Company Review Committee (PCRC) members, and PCC members for their efforts during the first three years of the PCC. FASB Chair Russ Golden thanked outgoing PCC members Mark Ellis, Neville Grusd, and Diane Rubin, as well as outgoing Chair Billy Atkinson, for their efforts and service. PCRC member and FAF Trustee Mack Lawhon thanked all parties and called the first three years a great success.