

## Private Company Financial Reporting Committee

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JUDITH H. O'DELL

Chair

### PCFRC Meeting Highlights July 26-27, 2007

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Denver, Colorado

All PCFRC members were in attendance except Kathy Barry and Mike Cain. Mike Cain participated via a conference call on the second day.

FASB Staff: Paul Glotzer

AICPA Staff: Bob Durak

#### **FASB FIN No. 48 Issues and Outreach**

The PCFRC engaged in a lengthy discussion about the issues confronting constituents of private companies related to the requirements of FIN 48. The results of a preliminary outreach effort to the PCFRC's resource group were reviewed as well. That preliminary outreach effort resulted in approximately 25 responses from private company financial statement users, preparers, and practitioners.

Issues discussed included the costs and benefits of complying with FIN 48, and the clarity of FIN 48's applicability to pass-through entities. The usefulness of FIN 48's disclosure requirements, such as the tabular reconciliation, was considered as well. In addition, the PCFRC recognized that FIN 48 implementation issues exist and further guidance from the FASB may be needed. The fact that the IASB would be addressing the requirements of FASB Statement No. 109, *Accounting for Income Taxes*, was recognized as having a bearing on the implementation of FIN 48.

Given the issues that were raised in its preliminary outreach effort and discussed during the meeting, the PCFRC will continue to focus its efforts on FIN 48 and possible recommendations to the FASB, and will proceed with additional and more in-depth outreach.

#### **FASB FIN No. 46R Issues and Outreach**

The PCFRC discussed issues related to the requirements of FIN 46R. The results of a preliminary outreach effort to the PCFRC's resource group were reviewed as well. Similar to the response rate to the FIN 48 outreach, the FIN 46R preliminary outreach effort resulted in approximately 25 responses from private company financial statement users, preparers, and practitioners.

The preliminary outreach and the experiences of PCFRC members revealed that FIN 46R GAAP exceptions, and the acceptance of those exceptions by financial statement users, are not uncommon in private company financial statements. The PCFRC will obtain and review data from the Risk Management Association about the frequency of GAAP exceptions before and after the effective date of FIN 46R.

Based on its preliminary research, the PCFRC recognized that many private companies encounter FIN 46R issues due to the presence of related party leasing companies (typically leasing real estate or equipment) that have been established for tax purposes and other business purposes by the owners. Accordingly, the PCFRC will focus its FIN 46R-related efforts on this most common private company scenario.

The PCFRC also discussed the lack of guidance on deconsolidation. When the FASB issued FASB Statement No. 144, the pertinent guidance in ARB No. 51 was “deleted” and [essentially] the guidance has not been substantively replaced. The PCFRC decided to pursue this issue further and ascertain whether there is a need for guidance from the FASB.

The PCFRC will continue its outreach research efforts on FIN 46R.

### **Status of Recently Issued Recommendations to the FASB**

- PCFRC May 16, 2007 recommendation letter about subsequent events

The FASB tentatively agreed with the PCFRC’s first recommendation to require private companies to disclose in a policy note to the financial statements the cutoff date through which subsequent events were considered by management for purposes of subsequent events analysis and disclosure. FASB members are considering whether such a requirement should be applicable to all entities, not just private companies. Also, FASB members tentatively concluded that more than disclosure is needed. The standard should specify a date through which subsequent events should be considered.

As to the PCFRC’s second recommendation, the FASB tentatively agreed not to converge with international accounting standards related to refinancing of short-term obligations and curing breaches of borrowing covenants.

- PCFRC June 10, 2007 recommendation letter about FASB FSP 154-a on the quantification of misstatements for purposes of evaluating materiality

The FASB decided not to issue FSP 154-a. It has been removed from the Board's agenda. The Board may consider at a future date whether to address the quantification of misstatements for the evaluation of materiality in a broader materiality project.

Overall, the PCFRC, through its Chair, will clarify with the FASB how the FASB responds to PCFRC recommendations.

### **FASB Project on Financial Statement Presentation**

The PCFRC discussed this project and recognized that the preliminary direction of the project could result in large costs for financial statement preparers, users, and practitioners. The PCFRC will address this project in more depth at its next meeting.

### **FASB Project on the Definition of a Private Company**

The PCFRC began its consideration of a FASB project about defining a private company. The FASB seeks input from the PCFRC on this definition. Although the PCFRC inclines toward using the SEC's definition of an "issuer" as a basis for defining a non-issuer or private company, the PCFRC needs to better understand how this potential definition project will affect its constituents before providing formal feedback to the FASB. PCFRC will begin developing a communication to its resource group about this project.

### **FASB Project: The Concept of a Reporting Entity**

The PCFRC discussed the FASB's joint conceptual framework project on the concept of a reporting entity. The FASB seeks input from the PCFRC at this early stage of the project. The PCFRC believes the FASB's beginning definition of a reporting entity provides needed flexibility. However, concern exists over the concept of including a "natural person" in the examples. With an eye on providing future input to the FASB, the PCFRC will continue to monitor and discuss this project.

### **Reports from Project Taskforces**

An update was given to the PCFRC on certain FASB projects.

- Liabilities & Equity

The FASB is seeking early input from the PCFRC on this project. FASB staff assigned to work with the PCFRC will begin the process with the committee.

- International Convergence

The PCFRC received a report about the recent SEC proposal to eliminate the requirement that foreign private issuers using International Financial Reporting Standards ("IFRS") reconcile their financial statements to U.S. GAAP. The PCFRC also received a report about a forthcoming SEC Concept Release on allowing U.S. public company issuers to prepare their financial statements using IFRS as published by the International Accounting Standards Board ("IASB").

- IASB Exposure Draft on International Financial Reporting Standard for Small and Medium-sized Entities (“draft IFRS for SMEs”)

After discussing the draft IFRS for SMEs, the PCFRC decided that its taskforce would review the document and identify elements that would be useful to the PCFRC’s work.

### **Recent Committee Member Presentations**

Certain PCFRC members reported on their recent presentations to different CPA groups about the PCFRC and its activities. These groups are looking forward to providing input into the PCFRC’s deliberations and receiving positive output from the PCFRC.

### **Audience Open Microphone**

Certain members of the audience addressed the PCFRC and expressed their views on relevant topics. The Committee thanks those individuals for their input.

### **Next PCFRC Meetings**

The PCFRC will hold its next meeting on September 20-21, 2007 in Dallas, Texas. Major topics expected to be addressed include FIN 48 and FIN 46R. In addition, the PCFRC will discuss FASB’s projects on financial statement presentation, liabilities & equity, and leasing. Beyond September, the PCFRC set the following tentative meeting dates and places:

December 6-7, 2007 – Norwalk, Connecticut

January 10-11, 2008 – New York

April 24-25, 2008 – San Diego

June 19-20, 2008 – Atlanta

September 18-19, 2008 – Boston

November 13-14, 2008 – New Orleans

These dates and places are subject to change.