

Private Company Financial Reporting Committee

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116
e-mail: jhodell@fasb.org

203-956-5218
Fax: 203-849-9714



JUDITH H. O'DELL
Chair

December 5, 2008

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Exposure Draft – Proposed Statement of Financial Accounting Standards, *Subsequent Events* (“proposed Statement”)

Dear Mr. Herz:

The PCFRC supports the FASB’s efforts to provide subsequent events guidance in the authoritative GAAP accounting literature because (a) it is the responsibility of preparers to consider the effect of subsequent events on the financial statements and (b) preparers should be able to look to accounting literature rather than auditing literature for that guidance. Comments on the specific issues identified in the proposed Statement follow (The issues, as stated in the proposed Statement, are presented below in italics).

Consideration of Subsequent Events through the Date That Financial Statements Are Issued or Available to Be Issued

Issue 1: Under AU Section 560, subsequent events were events or transactions that occurred after the balance sheet date but before the issuance of the financial statements. Under this proposed Statement, subsequent events would be events or transactions that occur after the balance sheet date but before the date that financial statements are issued or are available to be issued. The Board added the notion of available to be issued to consider situations in which financial statements may not be audited or may not be widely distributed after the financial statements are prepared—as may be the case with some nonpublic entities. The Board reasoned that an entity should not be required to evaluate subsequent events for an extended period of time for recognition in the financial statements solely because it does not have a practice of widely distributing its financial statements upon completion. A reasonable accommodation in this situation would be to require entities to determine the date upon which the financial

statements are available to be issued. Do you believe that this accommodation is helpful and operational? If not, why?

PCFRC Comments

The PCFRC supports adding the notion of “available to be issued” to the Subsequent Events literature. As stated in the PCFRC’s May 16, 2007 letter related to this topic, the strict notion of “issuance date” of the financial statements in the private company environment has little or no meaning because companies do not have a typical, universally understood issue date. For example, it is not uncommon for a private company to complete all work on the GAAP financial statements (including receiving an auditor’s opinion or an accountant’s report from an independent public accountant) on one date, send the financial statements to one of its end users on a later date, and then send the financial statements to yet another user on an even later date. As such, an accommodation for entities that do not have a practice of widely distributing their financial statements upon completion is needed and the PCFRC appreciates the FASB’s effort to provide an accommodation in the proposed Statement. Given the financial statement issuance conventions of most private companies, such an accommodation addresses the unique needs of private companies.

However, the accommodation is not sufficiently apparent in the Exposure Draft. A distinction in the proposed Statement should be made between public companies and private companies. The PCFRC recommends that the proposed Statement clearly state that private companies are to evaluate subsequent events through the date that financial statements are “available to be issued”. Paragraph 7 of the proposed Statement does not provide the clear accommodation for private companies but rather proposes that an entity that has an historical practice or current expectation of widely distributing its financial statements should evaluate subsequent events through the date that the financial statements are “issued”. Paragraph 7 then states that all other entities should evaluate subsequent events through the date that the financial statements are “available to be issued”.

Disclosure of the Date through Which Subsequent Events Were Evaluated

Issue 2: In conjunction with defining subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued, the Board decided that entities should disclose the date through which subsequent events were considered and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. IAS 10, Events after the Reporting Period, also requires disclosure of the date through which the entity evaluated subsequent events, and the Board reasoned that this disclosure was important information for users of financial statements in light of the accommodation provided to entities that may not have a consistent practice of widely distributing

their financial statements upon completion. Do you believe that this disclosure is needed and would be useful? If not, why? Do you believe that providing this disclosure will result in a significant change in an entity's process of preparing and issuing financial statements?

PCFRC Comments

The PCFRC believes that the disclosure of the date through which subsequent events were considered is useful and therefore the PCFRC supports the requirement. In its May 16, 2007 letter, the PCFRC noted the importance of financial statements clearly identifying the date to which subsequent events were considered by management. Considering the example used above, a financial statement user would be alerted to the fact that they are receiving financial statements after the subsequent events work was completed, and therefore, might consider performing some follow up procedures with company management to understand if there were any subsequent events between the date disclosed in the policy note and the date of receiving the financial statements. FASB's decision to require the disclosure of the date through which subsequent events were considered meets the needs of private company financial statement users, and does not impose an undue burden on preparers.

Scope Exception

Issue 3: Other applicable GAAP may address the accounting for subsequent events in a manner that is inconsistent with the principles in this proposed Statement. This proposed Statement is not intended to change the accounting required by such other applicable GAAP and, therefore, includes a scope exception for that GAAP. For example, this proposed Statement does not change the accounting for curing violations of borrowing covenants after the balance sheet date but before the financial statements are issued or are available to be issued. The Board reasoned that previous Boards were aware of the departures in those standards from AU Section 560 and decided against amending existing authoritative literature as a part of this project.

Do you agree? If not, why?

PCFRC Comments

The PCFRC agrees with including a scope exception in the proposed Statement. In its May 16, 2007 letter, the PCFRC recommended that the FASB not converge with international accounting standards (paragraphs 65-67 of IAS 1) related to refinancing of short-term obligations and curing breaches of borrowing covenants. The PCFRC believes that current practice is very effective from an auditing perspective, is well understood by users, and enables users to apply analytics on a consistent and comparable basis. In the private company arena it is not unusual for a company to be in default of a loan covenant and for the bank to issue a waiver, allowing short term and long term debt to be presented on a basis consistent with prior periods. In short, changing current practice not only

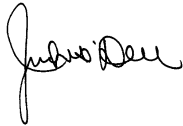
would be a solution where no problem exists, we believe it would decrease the effectiveness and ease of financial statement analysis on these topics.

Effective Date

The exposure draft proposes that the proposed Statement shall be effective for interim or annual financial periods ending after ratification of the FASB Accounting Standards Codification™ and shall be applied prospectively. The PCFRC recommends that there be a definitive effective date for this standard that is not connected with the ratification of the codification. It is possible that private company preparers and practitioners would miss the disclosure requirement (which is a change in GAAP) in the midst of the announcement of the ratification.

The PCFRC appreciates the FASB's consideration of these comments. Please feel free to contact me if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith H. O'Dell". The signature is fluid and cursive, with a large initial "J" and "O".

Judith H. O'Dell
Chair
Private Company Financial Reporting Committee