

Private Company Financial Reporting Committee

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Judith H. O'Dell CPA CVA
Chair

October 29, 2012

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Discussion Paper, Private Company Decision Making Framework ("Framework")

Dear Ms. Seidman:

The Private Company Financial Reporting Committee ("PCFRC" or "Committee") has been involved in the development of the Framework from the beginning and believes that the FASB's decision to engage the PCFRC early on in the project has proven most beneficial. Committee members worked with FASB staff members, providing input and advice about the differential factors between private companies and public companies and the development of the modules contained in the Discussion Paper. The PCFRC believes the Framework is an important step on the road to appropriate differential GAAP for private companies and we commend staff for their work on this project. Presented below are the Committee's answers to specific respondent questions.

Respondent Question 2: *Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If it has not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.*

PCFRC Response: The PCFRC believes that the FASB staff has identified and focused on the appropriate differential factors between private companies and public companies.

Respondent Question 3: *Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?*

PCFRC Response: The PCFRC believes that the FASB staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner.

Respondent Question 4: *Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?*

PCFRC Response: The Committee agrees that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow.

Respondent Question 5: *Do the different areas of the framework appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?*

PCFRC Response: The PCFRC believes that the different areas of the Framework generally appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management. However, access to management differs by user, with some users having easy access and other users having quite limited access. A private company may provide different levels of information in the financial statements based on who the primary user is. For example, a construction company may need to provide more information in their financial statements if the primary user is a surety and less information if the primary user is a lender, in light of the fact that lenders usually have more access to management than sureties do.

Going forward in the development and use of the Framework, consideration should be given to acknowledging that there is a distinction between the primary users of private company financial statements and all users of the statements. Not all users of private company financial statements have the same level of access to management. Consideration should also be given to addressing how different levels of access affect the implementation of the framework. In addition, consideration should be given to addressing how identifying the primary users of a private company's financial statements might affect the different areas of the Framework.

Respondent Question 6: *Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?*

PCFRC Response: The Committee believes that the FASB staff has identified the appropriate questions for the FASB and the PCC to consider in the recognition and measurement area of the framework.

Respondent Question 7: *Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?*

PCFRC Response: The PCFRC believes that the FASB staff has identified the appropriate areas of disclosure focus by private company financial statement users for the FASB and the Private Company Council to consider.

Respondent Question 8: *Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?*

PCFRC Response: The PCFRC believes that currently, private companies generally should apply the same display guidance as public companies. However, the Framework in this regard needs to be flexible enough to allow display differences for private companies in the future, especially if substantial changes are proposed to the display guidance for public companies.

Respondent Question 9: *Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred effective date, do you agree that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?*

PCFRC Response: The Committee agrees that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance. If private companies are provided a deferred effective date, the Committee agrees that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies.

Respondent Question 10: *Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?*

PCFRC Response: The Committee agrees with the FASB staff recommendation that some circumstances may warrant consideration of different transition methods for private companies. In addition, the Committee believes that the FASB staff identified the appropriate considerations for the FASB and the Private Company Council to evaluate.

Respondent Question 11: *Do you agree with the basis for the Board’s tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8–B23 in Appendix B)? If not, why?*

PCFRC Response: The PCFRC agrees with the basis for the FASB’s tentative decisions reached to date about which types of companies should be included in the scope of the framework. However, the PCFRC believes the Board should continue its project on the definition of a private company and incorporate that definition in the Codification for use by both the PCC and FASB in considering differences for private companies.

Respondent Question 12: *Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.*

PCFRC Response: The PCFRC recommends that a scalable, rather than binary, approach be applied when determining which types of entities should be included in the scope of the Framework. With a scalable approach, some entities would be included in the full scope of the Framework and others would be included only within the scope of certain parts of the Framework or alternatively on a standard by standard basis. For example, conduit bond obligors could be allowed to avail themselves of differential effective dates but perhaps not all differential disclosures.

Respondent Question 13:

- a) *Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.*
- b) *Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13(a).*

PCFRC Response: The Committee is of the opinion that while valid, respondent question 13 should not be posed at this early stage. Respondents will need time to understand what types and number of recognition and measurement differences will be proposed by the Private Company Council and FASB. Once such differences become better defined, respondents will have some context to refer to in answering the question.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Judith 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