

## Private Company Financial Reporting Committee

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 203-956-5218  
e-mail: [jhodell@fasb.org](mailto:jhodell@fasb.org) Fax: 203-849-9714  
JUDITH H. O'DELL  
Chair

### Meeting Highlights October 22-23, 2009

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Charlotte, North Carolina

All Private Company Financial Reporting Committee (“PCFRC” or “Committee”) members were in attendance.

*Financial Accounting Standards Board (“FASB”) Staff:* Paul Glotzer  
*American Institute of Certified Public Accountants (“AICPA”) Staff:* Bob Durak and Dan Noll  
Financial Accounting Foundation President Terri Polley (Thursday afternoon only).

#### Private Company Financial Reporting

Continuing its ongoing discussion about the future of private company financial reporting, the PCFRC engaged in a conversation with Terri Polley, President of the Financial Accounting Foundation (“FAF”). PCFRC members explained the unique needs of private company financial statement users and how those needs differ from the needs of public company financial statement users. PCFRC members discussed the growing burden that is being placed on private company constituents as complex accounting standards are added to GAAP in response to issues that are more relevant in the public company sector. Forces and trends already shaping the future of private company accounting were talked about, especially the issuance of the International Financial Reporting Standard for Small- and Medium-sized Entities (“IFRS for SMEs”). The PCFRC decided to issue a letter to the FAF on this topic, recommending that the FAF consider the issue of U.S. private company accounting in the context of the mission of the FASB. Based on its lengthy discussions and work on the topic, the PCFRC believes that a separate, stand-alone set of accounting standards for U.S. private companies tailored to the needs of the users of those statements is the preferred approach. However the PCFRC realizes there could be other major alternatives for private company accounting that should be explored.

#### Status of Letters Issued to the FASB and FASB Activities

The PCFRC discussed with FASB staff the status of certain letters issued by the PCFRC to the FASB and the status of the FASB projects related to those letters (see the PCFRC web site at <http://www.pcfrc.org/recommendations.html>). In addition, the Committee engaged in a discussion about current projects at the FASB and their possible effect on private company financial accounting and reporting.

*Proposed Accounting Standards Update—Research and Development (Topic 730):  
Research and Development Assets Acquired and Contingent Consideration Issued in an  
Asset Acquisition (A Consensus of the FASB Emerging Issues Task Force)*

This proposed ASU would require that all tangible and intangible research and development assets acquired in an asset acquisition would be capitalized regardless of whether those assets have a future alternative use. In addition, any contingent consideration arrangements related to the acquisition of an asset or asset group (regardless of whether the asset group includes research and development assets) would continue to be accounted for in accordance with existing GAAP.

Some PCFRC members found the proposed ASU lacking in clarity in some areas such as contingent consideration and the capitalization of research and development costs. PCFRC member Tom Groskopf will speak with the FASB project manager to express the Committee's concerns and gain clarity on the proposed ASU's provisions.

### **State CPA Society Involvement on Key FASB Projects**

The PCFRC agreed that the private company perspective would be better served if state CPA societies became more involved in responding to the FASB on key projects. To promote that increased involvement, the PCFRC has proposed contacting state societies and highlighting for them two to three important FASB projects that the societies should consider providing the FASB with their comments and input on. Initially, the PCFRC would contact the state societies about the following projects, for which Exposure Drafts are expected to be issued in the first half of 2010:

- Financial Instruments with Characteristics of Equity
- Financial Statement Presentation
- Emissions Trading Schemes

Before proceeding with this effort, certain PCFRC members will contact some state CPA societies to see if the PCFRC's idea would indeed help the state societies become more involved in providing the FASB with input on important projects affecting private company financial reporting.

### **Disclosure Framework**

The objectives of the FASB's Disclosure Framework project are to (1) establish an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant, and (2) seek ways to better integrate information provided in financial statements, MD&A, and other parts of a company's public reporting package. The PCFRC believes this project is important to private company financial reporting constituents and the PCFRC intends to provide the FASB with its viewpoints and recommendations as the project progresses. The PCFRC hopes that this project will provide an opportunity to achieve a simplification of the current GAAP disclosure requirements for private companies. At the meeting, the PCFRC discussed the project and developed input points. These points revolve around 1) cost/benefit considerations, and 2) the unique relationship and communication that exists between private company

financial reporting users and the preparers of that reporting. The PCFRC will share this input with FASB staff assigned to the project.

### **Financial Instruments with Characteristics of Equity**

The PCFRC discussed recent developments related to the FASB's project on Financial Instruments with Characteristics of Equity. In particular, the PCFRC reviewed a new approach being considered by the FASB. That approach would classify as equity particular share-settled instruments. Under that approach, an issuer would classify as equity an instrument it must settle by issuing equity instruments unless the issuer is using the equity instruments as currency. PCFRC members are optimistic that this approach may alleviate certain concerns the PCFRC has with the direction of this project and its impact on private company accounting. The PCFRC task force on this project will continue to monitor the progress of this new approach and the overall project.

### **Wording and Structure of FASB Accounting Standards Updates**

Effective July 1, 2009, changes to the source of authoritative U.S. GAAP, the *FASB Accounting Standards Codification*<sup>™</sup>, are communicated through an Accounting Standards Update (ASU). An ASU is a transient document that (1) summarizes the key provisions of the project that led to the ASU, (2) details the specific amendments to the FASB Codification, and (3) explains the basis for the Board's decisions. The PCFRC believes that the wording and structure of the ASUs can be improved and clarified. For example, a substantial explanatory section at the front of an ASU would be helpful. Also, including the whole text of the subtopic in the ASU instead of just the part of the subtopic that is being modified may provide better context and clarity. The PCFRC will issue a letter to the FASB, suggesting improvements to the ASUs.

### **Upcoming PCFRC Meeting with FASB**

At the December 3-4, 2009 PCFRC meeting, the Committee will meet with the FASB. To prepare for that session, the PCFRC developed discussion points, which include:

- Future of private company accounting
- Financial Statement Presentation project
- Disclosure Framework project
- Liabilities with Characteristics of Equity project

### **Accounting for Financial Instruments/Leases/Financial Statement Presentation**

The current status of the FASB's three projects on Accounting for Financial Instruments, Leases, and Financial Statement Presentation was reviewed by the PCFRC. Minutes from recent FASB meetings and recent tentative decisions made by the FASB on these projects were discussed by the PCFRC.

### **FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)**

Mr. James D. Campbell, Director of Accounting Policy & Control at Wellington Management Company, phoned in to the meeting and expressed concerns that the

investment management industry has with FASB Statement No. 167. The PCFRC will consider those concerns and determine if any action is necessary. In addition, the PCFRC suspended further work on FIN 46R while the Committee considers the FASB's lease accounting project and what impact that project may have on typical private company arrangements.

### **Credit Crisis Projects**

The FASB's recent decisions and progress related to the following credit crisis projects were discussed by the PCFRC and FASB staff:

- FASB 157 – improving disclosures about fair value measurements
- Recoveries of other than temporary impairments

### **Administrative Matters/Next PCFRC Meetings**

The PCFRC reviewed the status of its task forces, in light of the progress of the Committee's work and the progress and introduction of FASB projects. The FIN 48 and IFRS for SMEs task forces were dissolved and task forces were created to work on the Disclosure Framework and Financial Instruments projects. Going forward, the PCFRC intends to make heavier use of its task forces in reviewing FASB projects and identifying key issues affecting the private company sector.

Meeting dates for 2010 were tentatively set. The following meeting dates are subject to change.

- December 3-4, 2009 (Norwalk, Connecticut)
- April 29-30, 2010 (Orlando, Florida)
- June 24-25, 2010 (Norwalk, Connecticut)
- September 9-10, 2010 (TBD)
- December 2-3, 2010 (Norwalk, Connecticut)

A private conference call is tentatively scheduled for February 4, 2010.