

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

May 16, 2007

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

Re: Subsequent Events

Dear Mr. Herz:

The Private Company Financial Reporting Committee (PCFRC) offers the following recommendations to the FASB related to its current project on subsequent events.

The recommendations represent the unanimous views of the PCFRC. Please note that the timing of the subsequent events project did not allow for the PCFRC to do an extended outreach to other constituents of private company financial reporting as we plan to do on topics that allow for a longer lead time.

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.

Recommendation #1 - The PCFRC recommends that FASB require private companies to disclose in a policy note to the financial statements the cut-off date in which subsequent events were considered by management for purposes of subsequent events analysis and disclosure. 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 financials to yet another user on an even later date.

The PCFRC noted the importance of financial statements clearly identifying the date to which subsequent events were considered by management. Considering the example in the preceding paragraph, a 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 financials.

Recommendation #2 – The PCFRC recommends that the FASB stay the course on its current tentative decision not to converge with international accounting standards (paragraphs 65-67 of IAS 1) related to refinancing of short-term obligations and curing breaches of borrowing covenants. IAS 1 Paragraphs 65-67 are as follows:

- 65 When an entity breaches an undertaking under a long-term loan agreement on or before the balance sheet date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the balance sheet date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the balance sheet date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
- 66 However, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- 67 In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with IAS 10 *Events after the Balance Sheet Date*:
- (a) refinancing on a long-term basis;
 - (b) rectification of a breach of a long-term loan agreement; and
 - (c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

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.

The PCFRC appreciates the FASB's consideration of these recommendations. 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 the first name "Judith" being the most prominent part.

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