

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

September 29, 2008

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

Re: FASB-IASB Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*

Dear Mr. Herz:

The Private Company Financial Reporting Committee (“PCFRC”) provides the following comments about the FASB-IASB Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*.

General

The PCFRC supports the development of a conceptual accounting framework and the effort to develop a reporting entity concept. Essentially, the PCFRC believes that a definition of a reporting entity and a group reporting entity should be flexible enough to meet the diverse needs of private company financial statement preparers and users. In addition, the PCFRC believes that allowing stand-alone, parent-only financial statements is a desirable option in the private company sector. Presented below are responses to the questions asked in the Preliminary Views.

Specific Responses to Questions Asked in the Exposure Draft

Q1. *Do you agree that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities? If not, why?*

PCFRC Response to Question 1: The PCFRC agrees that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities.

Q2. Do you agree that the conceptual framework should broadly describe (rather than precisely define) a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers? If not, why? For example, do you believe that the conceptual framework should establish a precise definition of a reporting entity? If so, how would you define the term? Do you disagree with including reference to equity investors, lenders, and other capital providers in the description (or definition) of a reporting entity? If so, why?

PCFRC Response to Question 2: The PCFRC agrees that the conceptual framework should broadly describe (rather than precisely define) a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers. The PCFRC does not disagree with including reference to equity investors, lenders, and other capital providers in the description (or definition) of a reporting entity.

Q3. Do you agree that the risks and rewards model does not provide a conceptually robust basis for determining the composition of a group reporting entity and that, except to the extent that it overlaps with the controlling entity model (as discussed in paragraphs 102 and 103), the risks and rewards model should not be considered further in the reporting entity phase of the conceptual framework project? If not, why?

Q5. Do you agree that the composition of a group reporting entity should be based on control? If not, why? For example, if you consider that another basis should be used, which basis do you propose and why?

Q6. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity? If not, why?

PCFRC Response to Questions 3, 5, and 6: The PCFRC agrees that the risks and rewards model, by itself, does not provide a conceptually robust basis for determining the composition of a group reporting entity and that the composition of a group reporting entity should be based on control. Importantly, the PCFRC believes that, in the private company sector, flexibility is needed in determining the composition of a group reporting entity and in defining a circumscribed area of business activity. A basis for determining the composition of a group reporting entity should take into account all relevant considerations. The legal ownership and composition of entities is important to the users of private company financial

statements. For example, users may not have access to the cash flows of entities that may be consolidated into a potential group reporting entity but are outside the legal composition of the reporting entity. As such, including the assets, liabilities, operations, and cash flows of such an entity in the financial statements of the reporting entity would not be decision-useful to the user of the reporting entity's financial information.

Q4. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that:

(a) control should be defined at the conceptual level?

(b) the definition of control should refer to both power and benefits?

If not, why? For example, do you have an alternative proposed definition of control?

PCFRC Response to Question 4: The PCFRC agrees that control should be defined at the conceptual level and that the definition of control should refer to both power and benefits.

Q7. Do you agree that the common control model should be used in some circumstances only? If not, why? For example, would you limit the composition of a group reporting entity to the controlling entity model only? Or would you widen the use of the common control model? If you support the use of the common control model, at least in some circumstances, do you regard it as an exception to (or substitute for) the controlling entity model in those circumstances, or is it a distinct approach in its own right? Please provide reasons for your responses.

PCFRC Response to Question 7: The PCFRC agrees that the common control model should be used in some circumstances.

Q8. Do you agree that consolidated financial statements should be presented from the perspective of the group reporting entity, not from the perspective of the parent company's shareholders? If not, why?

PCFRC Response to Question 8: The PCFRC agrees that the consolidated financial statements should be presented from the perspective of the group reporting entity.

Q9. Do you agree that consolidated financial statements provide useful information to equity investors, lenders, and other capital providers? If not, why?

Q10. Do you agree that the conceptual framework should not preclude the presentation of parent-only financial statements, provided that they are included in the same financial report as consolidated financial statements? If not, why?

PCFRC Response to Questions 9 and 10: The PCFRC believes that consolidated financial statements do not always provide useful information to private company equity investors, lenders, other capital providers, sureties, and insurers. As stated in the PCFRC's July 18, 2008 letter to the FASB, private company financial reporting users' needs appear to be diverse depending upon the nature of the user (e.g., lender, surety, venture capitalist) and their purposes. The PCFRC believes that stand-alone, parent-only financial statements should be allowed under generally accepted accounting principles ("GAAP") for private companies. Accounting standards should be flexible to accommodate diverse financial statement users' needs.

In presenting stand-alone, parent-only financial statements, the parent's investment in the other entity or entities would be accounted for under the equity method. Summarized information as to assets, liabilities, and results of operations of the investee would be presented in the notes. Such parent-only financial statements would continue to contain adequate disclosures about related-party entities and activities. Furthermore, a financial statement user would not be precluded from obtaining the financial statements of entities controlled by the parent.

If a private company preparer and user agree that parent-only financial statements satisfy their financial reporting needs, this option will free private company preparers from the cost of preparing consolidated financial statements, without depriving the financial statement user of any benefits. Furthermore, this option will reduce GAAP-exception reports, and reduce diversity in practice. Granting private company financial reporting constituents the option to decide between consolidated or stand-alone parent-only financial statements, based on their needs, is a market-driven solution that increases the relevance of GAAP for these constituencies.

Q11. With regard to the concept of control, in the context of one entity having control over another, do you agree that:

(a) establishing whether control exists involves assessing all the existing facts and circumstances and, therefore, that there are no single facts or circumstances that evidence that one entity has control over another entity in all cases, nor should any particular fact or circumstances—such as ownership of a majority voting interest—be a necessary condition for control to exist? If not, why?

PCFRC Response to Question 11(a): The PCFRC agrees that establishing whether control exists involves assessing all the existing facts and circumstances.

(b) the concept of control should include situations in which control exists but might be temporary? If not, why?

PCFRC Response to Question 11(b): The PCFRC agrees that the concept of control should include situations in which control exists but might be temporary.

(c) the control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but rather should be a broad concept that encompasses economically similar circumstances? If not, why?

PCFRC Response to Question 11(c): The PCFRC agrees that the control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but rather should be a broad concept that encompasses economically similar circumstances.

(d) in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently controls that other entity? If not, why?

PCFRC Response to Question 11(d): The PCFRC agrees that in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently controls that other entity.

(e) to satisfy the power element of the definition of control, power must be held by one entity only? In other words, do you agree that the power element is not satisfied if an entity must obtain the agreement of others to direct the financing and operating policies of another entity? If not, why?

PCFRC Response to Question 11(e): The PCFRC agrees that to satisfy the power element of the definition of control, power must be held by one entity only.

(f) that having “significant influence” over another entity’s financing and operating policy decisions is not sufficient to establish the existence of control of that other entity? If not, why?

PCFRC Response to Question 11(f): The PCFRC agrees that having “significant influence” over another entity’s financing and operating policy decisions is not sufficient to establish the existence of control of that other entity.

Q12. Should any of the above control issues be addressed at the standards level rather than at the concepts level? If so, which issues and why?

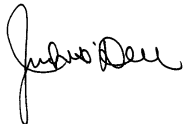
PCFRC Response to Question 12: The PCFRC believes that the above control issues should be addressed at the concepts level and in more detail at the standards level when necessary.

Q13. Are there any other conceptual issues, relating either to the control concept or to some other aspect of the reporting entity concept, that are not addressed in this Preliminary Views and should be addressed at the conceptual level? If so, which issues and why?

PCFRC Response to Question 13: The PCFRC has not identified any other conceptual issues, relating either to the control concept or to some other aspect of the reporting entity concept, that are not addressed in this Preliminary Views and should be addressed at the conceptual level.

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

Sincerely,



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