

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights April 24-25, 2008

San Diego, California

All PCFRC members were in attendance.

Financial Accounting Standards Board Staff: Paul Glotzer

American Institute of Certified Public Accountants Staff: Bob Durak and Dan Noll

Committee Matters

Mr. James K. Smith was introduced as a new member of the PCFRC. Tentative meeting dates for 2009 were set and they are listed at the end of these highlights.

Roadmap Ahead for Private Company Accounting Standards

The PCFRC reviewed recent events and trends affecting the setting of accounting standards in the U.S. and abroad. The Committee then engaged in a discussion about possible scenarios of how accounting standards for U.S. private companies could be set in the future. Various models were considered and PCFRC members expressed their initial preferences. The roadmap ahead for private company accounting standards will continue to be discussed at future PCFRC meetings. At the June 2008 meeting, the Committee will review the differences between U.S. generally accepted accounting principles (“GAAP”) and International Financial Reporting Standards (“IFRS”).

FIN 48

The results of the PCFRC’s extended outreach about FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (“FIN 48”) were reviewed. Outreach responses indicated that the disclosure and presentation provisions of FIN 48 are not very relevant or useful to private company financial statement users. In addition, the outreach responses indicated that financial statement preparers and CPA practitioners found the disclosure and presentation provisions of FIN 48 especially challenging to prepare, audit, review, or compile. The extended outreach results reveal that the benefits of complying with the disclosure and presentation requirements of FIN 48 fail to justify the related compliance costs.

Based on the PCFRC’s consideration of the extended outreach results, on other feedback from its Resource Group, and on its own experiences and knowledge, the PCFRC

decided to issue a recommendation letter to the Financial Accounting Standards Board (“FASB”), seeking an exemption from FIN 48 requirements for private companies.

FASB FIN No. 46R

The cost of complying with FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*, (“FIN 46R”), was identified, by the PCFRC, as a major issue among private companies, especially smaller entities. Diversity in practice exists and there is an increasing use of GAAP exceptions related to FIN 46R in the private company arena. Because user needs appear to be diverse depending on the nature of various structures, and based on its consideration of the issues that private company constituents are facing with FIN 46R, the PCFRC decided to issue a recommendation letter to the FASB recommending the allowance in GAAP of parent-only financial statements for private companies. Allowing parent-only financial statements will reduce costs for private company financial statement preparers and practitioners, will reduce diversity in accounting practice, and will allow private companies to best meet user needs by providing parent-only and/or consolidated financial statements as warranted

Financial Instruments with Characteristics of Equity

The Liabilities & Equity Project task force of the PCFRC led the committee through an analysis of the FASB Preliminary Views document titled *Financial Instruments with Characteristics of Equity*. The PCFRC decided to issue a letter to the FASB offering recommendations and observations about the Preliminary Views document. Specifically, the PCFRC observes that under the Basic Ownership approach there could be unintended effects on private companies as a result of classification of financial instruments as liabilities, the complexity infused into the model due to the measurement requirements, and the introduction of charges to the income statement related to ownership.

Additionally, the PCFRC believes that the FASB should address the effect of the proposals in the Preliminary Views document on Employee Stock Ownership Plans. Finally, the PCFRC will recommend that the Ownership-Settlement approach appears to be a foundation of principles that can be built upon to improve financial reporting without adding complexity.

FASB-IASB Project on Financial Statement Presentation

The PCFRC reviewed its recent efforts related to the Financial Statement Presentation project, including 1) its recent letter to the FASB expressing concern about the lack of private company representation on the advisory groups associated with this project, and its suggestion that the Notice to Recipients in the related Preliminary Views document ask readers to consider if private companies should be exempt from the scope of this project; 2) a recently published article (http://www.pcfrc.org/downloads/RMA_Journal_Article_-_FASB-IASB_Propose_a_Complete_Change_to_Financial_Reporting.pdf) in the Risk Management Association Journal, authored by a PCFRC member, about the Financial

Statement Presentation project; and, 3) PCFRC efforts to alert its Resource Group to the importance of the project.

The Committee decided to begin reaching out to certain private company constituent organizations and committees in an effort to involve those organizations with the work of the PCFRC on this project.

FASB Statement No. 123R, Goodwill, and Long-term Asset Valuation and Impairment Issues

The leader of the PCFRC task force addressing FASB Statement 123R, goodwill, and long-term asset valuation and impairment issues discussed his year-end experiences with complying with FASB Statement 123R. After that discussion, the PCFRC decided to continue to accumulate feedback from its Resource Group volunteers on this project and determine next steps based on that feedback.

Next PCFRC Meetings

The PCFRC will hold its next meeting on June 19, 2008 in Atlanta, Georgia. Beyond June, the PCFRC has set the following tentative meeting dates and places.

September 18-19, 2008 – Boston
November 13-14, 2008 – New Orleans
January 8-9, 2009 – Location to be determined
April 23-24, 2009 - Location to be determined
June 25-26, 2009 - Location to be determined
August 6-7, 2009 - Location to be determined
October 15-16, 2009 - Location to be determined
December 3-4, 2009 - Location to be determined

These dates and places are subject to change.