

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

Meeting Highlights October 4-5, 2012

Norwalk, Connecticut

In Attendance:

Private Company Financial Reporting Committee (“PCFRC” or “Committee”): Judy O’Dell (chair), Steve Bodine, Steve Shelton, Tom Groskopf, Mary Ann Lawrence, James Stevenson, Jim Smith, David Lomax and George Beckwith

Financial Accounting Standards Board (“FASB”) member Daryl Buck, FASB assistant director Jeff Mechanick

American Institute of Certified Public Accountants (“AICPA”) staff members, Dan Noll and Bob Durak

Other FASB staff members participated in parts of the meeting as needed for project updates and discussions.

Note that all discussions of FASB projects reflect the project’s status as of the date of this meeting. Check the FASB website for further updates.

Disclosure Framework

The FASB’s discussion paper on proposals to improve the effectiveness of financial statement disclosures was reviewed by the PCFRC. The PCFRC’s main concern was how this framework would interact with the proposed Private Company Decision Making Framework which also encompasses decision criteria related to disclosures. The Committee developed preliminary comment letter points and plans to issue a final comment letter by the FASB’s extended deadline of November 30. See www.pcfrc.org.

Private Company Decision Making Framework/Definition of a Nonpublic Entity

The PCFRC developed preliminary comment points on the FASB’s Discussion Paper about its framework to facilitate decisions about whether and when to adjust the requirements for recognition, measurement, presentation, disclosure, effective dates, and transition methods for financial accounting standards that apply to private companies. The PCFRC recommended that a scalable rather than binary approach be applied when determining which types of entities should be included in the scope of the document. The PCFRC members expressed concern about the proposal that a company adopting one recognition or measurement exception should have to adopt all, believing that the discussion was premature. The Committee subsequently issued its final comment letter on October 29, 2012. See www.pcfrc.org.

Proposed Accounting Standards Update, Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income (OCI)

The PCFRC developed comment points on FASB's Proposed ASU about the reclassification of items out of accumulated other comprehensive income. PCFRC members believe that the concept of OCI may be irrelevant to many non-financial institution private companies and their users. The Committee subsequently issued its final comment letter on October 18, 2012. See www.pcfrc.org.

Leases

FASB staff updated the PCFRC on lease accounting issues related to the private company sector. Those issues included accounting for short-term/month to month leases, determining an appropriate discount rate, related party leases, disclosures, and the interaction between the proposed lease standard and existing consolidation standards. The Board subsequently tentatively decided not to provide specific guidance on recognition and measurement for related party leases. As the PCFRC had recommended, the Board also tentatively decided that nonpublic entities should be provided with a practical expedient to use a risk-free discount rate, with a term comparable to that of the lease term as an accounting policy election for all leases. The PCFRC's concern about some companies possibly using "substitutability" as a way to avoid lease accounting appears to have been adequately addressed.

Investment Property Entities/Investment Companies

FASB staff updated the Committee about the Investment Property Entities and Investment Companies projects. The FASB has decided to evaluate the progress of other projects on its agenda, such as the joint project on leases and the research project on the application of asset- or entity-based guidance to nonfinancial assets held in an entity, before making a final decision on investment property guidance. The FASB and the IASB are re-deliberating the Investment Companies project based on input received from stakeholders and plan on issuing a final standard in the first half of 2013.

Reporting Discontinued Operations

FASB staff sought input from the PCFRC about its project about a proposed definition of discontinued operations. This project has been undertaken due to inconsistencies with the IASB's definition of discontinued operations and too low of a threshold in the U.S. for reporting discontinued operations.

Liquidation Basis of Accounting and Going Concern

FASB staff updated the PCFRC about the FASB's project on liquidation basis of accounting/going concern. The Committee provided feedback to the FASB staff on the kinds of possible disclosures management should be required to make concerning going concern issues. Some Committee members thought that requiring early warning disclosures would be beneficial; however the wording of such disclosures could be

problematic. In addition, early warning disclosures could end up promoting a “checklist” mentality to assessing going concern, which would be detrimental to financial reporting.

Liquidity and Interest Rate Risk Disclosures

The Committee reviewed with the Board and staff its recommendations and comments contained in its recent comment letter on the FASB’s Proposed ASU, *Disclosures about Liquidity Risk and Interest Rate Risk* (which was issued on September 25, 2012).

Financial Instruments

FASB staff provided an update to the PCFRC about recent FASB deliberations related to the impairment component of the financial instruments project. The FASB intends to re-expose the proposed guidance in the 4th quarter of 2012 for public comment. The PCFRC has not, at this point, identified any major preliminary concerns with the proposed guidance. Generally, the proposed guidance would be more of a concern to financial institutions. The PCFRC did recommend that the FASB communicate effectively to private companies that accounts receivable are financial instruments included in the scope of the project.

Revenue Recognition

Decisions reached by the FASB during July and September of 2012 were discussed by the FASB staff with the PCFRC. These decisions included matters about identifying separate performance obligations, satisfying performance obligations over time, licenses, losses arising from onerous obligations in contracts, constraining the cumulative amount of revenue recognized, collectability, and the time value of money.

Consolidations: Related Party Leasing Arrangements

FASB staff sought input from the PCFRC about the accounting for related party lease transactions and whether FSP FIN 46(R)-5, *Implicit Variable Interests under FASB Interpretation No. 46*, should be amended. Four alternative approaches were discussed, including 1) establishing a narrow scope practical expedient to private companies, 2) providing implementation guidance on VIE assessment for related party arrangements, 3) providing educational material, and 4) consider a broader research project to understand the concerns from private company constituents on application of VIE guidance. The PCFRC believed that more implementation guidance is needed on what constitutes a VIE. A follow-up conference call was scheduled with the FASB staff to further discuss the issues. During the conference call the PCFRC concluded that perhaps a clear example of how the related party “tie breaker” would apply might be a way to provide a short term fix and agreed that a broad research project should be undertaken.

EITF Issue 12-D, Accounting for Joint and Several Liability for Which the Total Amount of the Obligation is Fixed

FASB staff provided an update to the PCFRC about EITF Issue 12-D and its financial reporting implications.

PCFRC Windup and Transition Memo to PCC

The PCFRC decided to prepare a memo to the new Private Company Council about the projects the PCFRC has been working on in an effort to facilitate the transition from the PCFRC to the PCC. A follow-up Committee conference call was held on November 6 and the memo was issued to the PCC on November 21.

Joint Meeting between the PCFRC and the FASB

Since this was the final PCFRC meeting, the chair, Judy O'Dell, presented recognition plaques to each of the PCFRC members and Daryl Buck thanked the PCFRC chair and members for their service on behalf of his fellow board members.

The PCFRC discussed the following matters and projects with the FASB. See the meeting highlights above for a description of the points and concerns expressed by the PCFRC related to these projects.

- Transitioning PCFRC activities to the PCC
- Decision-making framework for private companies
- Definition of a private company
- Leases – private company issues
- Consolidations – related party entities
- Liquidity and interest rate risk disclosures
- Disclosure framework
- Liquidation basis/Going concern