

Report of Private Company Financial Reporting Committee

2011

The Private Company Financial Reporting Committee (“PCFRC”) is an advisory board to the Financial Accounting Standards Board. Its mission is to further improve the FASB's current standard-setting process to better meet the financial reporting needs of private companies and the users of their financial statements. The PCFRC considers user needs and cost-benefit analysis to make formal recommendations to FASB about existing and prospective GAAP.

Committee Membership

In addition to the chair the PCFRC consists of 4 preparers and 4 users of private company financial statements as well as 4 CPA practitioners who serve private companies. All PCFRC members are volunteers who represent their own personal views, although many have ties to constituent organizations such as RMA, FEI, IMA, AGC, CFMA and surety and venture capital trade groups. There were no new members appointed to the PCFRC in 2011.

Interaction with Board and Staff

The original protocols set up with the FASB required the Board to consider all PCFRC recommendations. Decisions made concerning those recommendations were to become a part of the Board minutes and addressed in the basis for conclusions of proposed standards. During 2011 the PCFRC began working with the Board and staff under new mandates in the Board's consideration of private company issues.

- A FASB Board member attends each PCFRC meeting.
- FASB staff members representing private company viewpoints were imbedded in each Board project.
- In February, 2011 the PCFRC chair met with FASB private company staff to discuss working relationships with PCFRC members and other outreach ideas. The PCFRC is organized around project task forces. As new projects are added to the FASB or EITF agenda, PCFRC members are assigned to task forces that follow each project to completion. FASB private company staff members were matched with the PCFRC task force leader for each project to provide a point of contact.
- PCFRC members now interact directly with the private company staff members assigned to each project. This takes the form of phone calls or emails as issues arise in staff consideration of their projects.
- The PCFRC chair is now a participating observer to the EITF
- Some PCFRC members participated in the private company roundtables held in Fall, 2011

- Some PCFRC members are part of the private company resource group that is developing the private company financial reporting decision framework.
- PCFRC members are part of various FASB project related working groups

Comment Letters

In addition to the “behind the scenes” input to staff the PCFRC issued the following comment letters in 2011:

December 19, 2011 –Proposed Accounting Standard Update, *Real Estate- Investment Property Entities*

This letter addressed how this proposed standard might impact common private company real estate entities.

December 19, 2011 - Proposed Accounting Standards Update, Financial Services – *Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements*

The PCFRC recommended removing the requirement for an investment company to disclose whether it intends to provide financial support.

July 19, 2011 - Post-implementation Review Process on FIN 48

The PCFRC presented the private company viewpoint on issues surrounding the initial issuance of the standard including the PCFRC’s push for delayed implementation dates for private companies and the need for additional guidance for not-for profit and pass through entities.

June 6, 2011 - Proposed Accounting Standards Update, *Testing Goodwill for Impairment*

The PCFRC was particularly pleased with the outcome of this project as it arose from issues raised at a PCFRC meeting and at private company roundtables. The Board responded quickly and the scope was expanded from private companies to encompass public companies as well.

April 26, 2011 - Invitation to Comment, *Selected Issues about Hedge Accounting*

PCFRC members and others at roundtables have been educating board members about the common use of “plain vanilla” interest rate swaps to enable private companies to obtain a fixed interest rate on debt. As a result of existing standards these companies must deal with the complex hedge accounting. The PCFRC recommended that a simplified approach to the accounting and reporting for interest rate swaps and their related caps and collars be considered for private companies

March 30, 2011 - Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Impairment*

The PCFRC asked for clarification as to how these proposals would impact some common financial instruments held by non-financial institution private companies

January 27, 2011 - Discussion Paper, *Effective Dates and Transition Methods*

The PCFRC presented the divergent views of committee members on this issue. One issue that the entire committee agreed upon was the need for private companies to have effective dates at least a year later than those for public companies.

January 21, 2011 - Supplemental Letter on Proposed ASU, *Revenue from Contracts with Customers*

This letter was an addendum to our original letter and commented on private company issues surrounding licenses and costs of long term contracts.

Meetings

The PCFRC held four one and a half day meetings during 2011: May in Norwalk, June in Minneapolis, September in Las Vegas, and November in Norwalk. Our May and November meetings included a session with the full FASB. Board members attending our meetings were Daryl Buck in May, Larry Smith in June, Marc Siegel in September and Larry Smith in November. The PCFRC has found the direct involvement with Board members extremely helpful in understanding projects and formulating recommendation letters. Board members report they have gained insight into private company issues as a result of their participation. In addition the PCFRC held numerous conference calls with staff to provide input on specific topics and hear updates on projects. Full minutes of meetings and major conference calls are posted to the website www.pcfrc.org.

Ongoing PCFRC Projects

In addition to monitoring ongoing FASB projects, the PCFRC is also focused on the following issues that directly impact private company financial reporting:

- Related party leases- these types of leases are more common in the private company world and the PCFRC continues to work with staff to ensure that these are addressed in the final leasing standard.
- Consolidations of typical private company related party entities- examples demonstrating whether an entity is a VIE (Accounting Standards Codification Topic 810-10-15-14). Interpretation of this standard continues to be inconsistent among private companies and

confusing to users of their financial statements. The PCFRC has asked the Board to provide guidance as to when these types of leasing entities should be consolidated under existing standards. FASB staff has been assigned to this project.

- “Plain Vanilla” interest rate swaps-the PCFRC has urged the Board to separately consider this form of hedging that is common among private companies seeking to obtain fixed rate loans. Entering into this type of arrangement requires complex accounting that users do not find useful.
- The status of preferred stock in the inactive project on financial instruments with characteristics of equity.
- Decision making framework for exceptions and modifications for private companies-some PCFRC members are on the task force assisting staff with the project and are monitoring its progress and providing input.
- Disclosure framework project

2012 Working Plan

The PCFRC has scheduled two meetings in 2012 and there will be numerous conference calls in between meetings.

May 10-11 in Norwalk to include a joint session with the Small Business Advisory Committee

June 28-29 in Norwalk

Further activity will depend on the outcome of the Financial Accounting Foundation’s decisions regarding its proposal for the Private Company Standards Improvement Council. The PCFRC has provided its comments on the proposal.

Speaking and Outreach Activities

Small Business Advisory Committee (SBAC)

The PCFRC chair attended the May SBAC meeting and gave an update on PCFRC activities and participated by phone at the December meeting.

Emerging Issues Task Force (EITF)

The PCFRC chair was appointed as a participating observer to the EITF and began attending meetings in 2011. The PCFRC chair and a PCFRC member are part of the working group on the Obligations with Joint and Several Liability project

FASB Roundtables

The PCFRC chair and several members attended the FASB roundtables on private company financial reporting. Various PCFRC members also participated in FASB roundtables on multiemployer plans and disclosure framework.

Private Company Working Group

The PCFRC Chair and other PCFRC members attended the May meeting of this group and participated in follow up conference calls.

Presentations

The PCFRC Chair and members made numerous presentations on private company accounting updates and FASB projects as follows:

Chair

Virginia Society of CPAs Board of Directors (conference call)

American Bar Association Law and Accounting Conference

Virginia Society of CPAs A&A Conference

IMA Small Business Committee (conference call)

Connecticut Society of CPAs A&A Conference

Idaho Society of CPAs Annual Meeting

National Rural Utilities Cooperative Finance Cooperation Accounting Workshop

New York State Society of CPAs A&A Conference (NYC)

AICPA National Advanced Accounting and Auditing Symposium

State Society of CPAs Executive Group

Construction Industry CPA Consultants Association Conference

New York State Society of CPAs –Buffalo Chapter Symposium

Pennsylvania Institute of CPAs A&A Conference

ACPEN A&A Update (TV Broadcast)

Georgia Society of CPAs A&A Conference

California Society of CPAs A&A Conference- Burbank and San Francisco

PKF North America A&A Conference

Illinois Society of CPAs A&A Conference- Springfield and Chicago

PCFRC Members

AICPA Practitioners' Symposium

Gambling Conference in Minnesota

Florida Institute of CPAs Construction Conference

Presentation to University of St. Thomas Masters of Accounting Program

CFMA Webinar
NECA Annual Conference
AGC/CFMA Annual Construction Conference
CFMA 10th Annual Carolinas Conference
PKF Annual Construction Contractors Fly-In
AICPA National Construction Industry Conference in Las Vegas
Northern Kentucky IMA Chapter
Greater Cincinnati RMA Chapter
Huntington National Bank Credit Department
Ohio Society of CPAs Corporate CPE Day
Michigan Association of CPAs
AICPA National Advanced Accounting and Auditing Symposium
AICPA/IFRS Foundation Conference on IFRS
PKF Summit
Ohio Society of CPAs
NASBP National Meeting
NAIS (National Association of Independent Sureties) national annual meeting presenter
SAA (Surety Association of America)
AGC (presenter on national call)
RMA Loan Review Roundtable
RMA Albany Chapter meeting
RMA Annual Conference-Washington
AICPA Controller's Conference- East and West

Private Company Financial Reporting Committee

Judith H. O'Dell
Chair

User Members

Mike Cain
Frost National Bank
Mary Ann Lawrence
Key Bank
David Lomax
Liberty Mutual Surety
James Stevenson
ABS Capital Partners

Preparer Members

Jim Smith
Phonon Corporation
Chris A. Rogers
Infragistics, Inc.
George Beckwith
National Gypsum
Steven Lords
CF Jordan Construction

Practitioner Members

Steven A. Shelton
Way, Ray, Shelton and Co. P.C.
John R. Burzenski
Burzenski & Company
Steve Bodine
Clifton Larson Allen
Thomas J. Groskopf
Barnes Dennig