

Private Company Financial Reporting Committee

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Chair

Meeting Highlights August 6-7, 2009

Pittsburgh, Pennsylvania

All Private Company Financial Reporting Committee (“PCFRC” or “Committee”) members were in attendance, except Jim Smith.

Financial Accounting Standards Board (“FASB”) Staff: Paul Glotzer and Jeff Mechanick
American Institute of Certified Public Accountants (“AICPA”) Staff: Bob Durak and Dan Noll

IFRS for SMEs

On July 9, 2009 the International Accounting Standards Board (“IASB”) issued its much anticipated International Financial Reporting Standard for Small- and Medium-sized Entities (“IFRS for SMEs”). Given the relevance of this event to the PCFRC’s work, Committee members reviewed all the individual sections of IFRS for SMEs and discussed their impressions at the meeting.

PCFRC members focused on differences between the accounting and reporting requirements in IFRS for SMEs and U.S. GAAP. Moreover, the PCFRC user members talked about the ability of IFRS for SMEs to meet their needs. Numerous pros and cons were identified by the Committee. For example, PCFRC members found IFRS for SMEs easy to read and understand, appreciated the simplified accounting options for goodwill impairment and pensions appropriate for private companies, and appreciated the various exceptions to fair value reporting contained in the standard. On the other hand, Committee members were concerned by a lack of detailed guidance in some areas and whether the principles-based standard could be operational in the U.S., given the IFRS for SMEs’ greater reliance on preparer judgment in selecting accounting and reporting treatments.

The PCFRC also discussed the confluence of events and factors such as the issuance of IFRS for SMEs, the decision by the Canadian Accounting Standards Board to develop its own set of GAAP for private enterprises, and the growing demand in the U.S. for differential standards to meet the needs of private company financial statement users. Committee members were also informed after the meeting about the UK’s decision to adopt IFRS for SME.

There is a growing consensus among the committee members that there is a need for a separate GAAP for private companies in the US. The Committee discussed making a recommendation that FASB add a project on private company accounting to its agenda. Further discussion on this matter will take place at the October meeting in Charlotte.

**Status of Letters Issued to the FASB and FASB Activities
Financial Instruments – Improvements to Recognition and Measurement
Disclosure Framework**

The PCFRC discussed with FASB staff the status of certain letters issued by the PCFRC to the FASB and the status of the FASB projects related to those letters (see the PCFRC web site at <http://www.pcfrc.org/recommendations.html>). In addition, the Committee engaged in a discussion about current projects at the FASB and their possible effect on private company financial accounting and reporting.

The FASB's project titled *Financial Instruments – Improvements to Recognition and Measurement* was identified by the PCFRC as a project that could significantly affect private company accounting and reporting. The FASB expects to issue an Exposure Draft on this project in early 2010. Tentatively, among other things the FASB has proposed that all financial instruments would be presented on the balance sheet at fair value with changes in value recognized in net income or other comprehensive income. The PCFRC will monitor the FASB's decisions on this project and review the Exposure Draft when issued.

Another recent FASB initiative focused on by the PCFRC at the meeting was the project titled *Disclosure Framework*. The objectives of this project are to (1) establish an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant, and (2) seek ways to better integrate information provided in financial statements, MD&A, and other parts of a company's public reporting package. The PCFRC welcomes this project and will consider providing the FASB staff with some early input about the disclosure needs of private company financial reporting users and the relevance and usefulness of existing disclosure requirements to private company constituents. To that end, the Committee will communicate to the FASB its willingness to assist with this project.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”)

The PCFRC inquired of FASB staff about the status of proposed FASB Staff Position (“FSP”) FIN 48-d, *Application Guidance for Pass-through Entities and Tax Exempt Not-For-Profit Entities, and Disclosure Modifications for Nonpublic Entities*. In May 2009, the FASB issued the proposed FSP and on July 2, 2009 the PCFRC issued its comment letter on it. FASB staff informed the Committee that the final FSP should be issued by the end of August.

EITF Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables*, and EITF Issue No. 09-3, *Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements*

Proposed EITF Issue Nos. 08-1 and 09-3 address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, how the arrangement consideration should be allocated among the separate units of accounting, and changes to the accounting for multiple element arrangements under SOP 97-2 that contain software-enabled

products. The proposed guidance in these EITF Issues appears to align with the revenue recognition model being proposed by the FASB in its recent Preliminary Views of that subject.

The PCFRC generally favors the proposals in the EITF Issues and believes that the guidance would best reflect economic reality. PCFRC members believe that the EITF Issues would benefit from the inclusion of needed parameters around the extent to which multiple elements are broken out and separated. The Committee will issue a letter to the FASB expressing its views.

Financial Instruments with Characteristics of Equity

The Committee discussed recent developments related to the FASB's Preliminary Views, *Financial Instruments with Characteristics of Equity*. Based on recent FASB meetings on this project, PCFRC members believe that the FASB's approach to determining whether a financial instrument gets classified as either equity or a liability is problematical in the private company sector. As such the PCFRC will issue a letter to the FASB expressing its concerns and suggesting that a panel of private company financial reporting users meet with the FASB to discuss this topic in more depth.

The PCFRC issued its comment letter on the FASB's Preliminary Views on this project on May 23, 2008(http://www.pcfrc.org/downloads/PV_Fin_recommendations.pdf).

Credit Crisis Projects

The FASB's recent decisions and progress related to the following credit crisis projects were discussed by the PCFRC and FASB staff:

- Measuring liabilities under FASB 157
- Recoveries of other than temporary impairments
- FASB 157 – improving disclosures about fair value measurements
- FASB 157 – Applying fair value to interests in alternative investments

Loan Loss Disclosures

On June 24, 2009 the FASB issued a proposed Statement, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The PCFRC noted that the scope of this proposed Statement could draw in numerous private companies beyond financial institutions. The AICPA's Technical Issues Committee ("TIC") staff, in attendance at the meeting, informed the PCFRC about the work that TIC has been doing related to this project. The PCFRC decided to review TIC's upcoming draft comment letter on this proposed Statement and determine whether it agrees with and supports TIC's positions. The PCFRC is concerned that the time frame to comment on the proposed Statement is short and more time may be needed to consider the impact of the proposed requirements on non-financial institution private companies.

FAF Trustee Outreach

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The outreach effort being conducted by Financial Accounting Foundation (“FAF”) trustees was briefly discussed and applauded by the Committee. Some PCFRC members attended the outreach sessions and informed the full Committee about the topics discussed at those sessions.

Next PCFRC Meetings

The PCFRC has two more meetings scheduled for 2009. Its next meeting will be on October 22-23, 2009 in Charlotte, North Carolina. The Committee’s final 2009 meeting will take place on December 3-4, 2009 in Norwalk, Connecticut. These dates and places are subject to change.