

## Private Company Financial Reporting Committee

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### Meeting Highlights January 8-9, 2009

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Norwalk, Connecticut

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

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

#### Meeting with FASB

A two-hour meeting with FASB members and staff was held, at which the following topics were discussed:

- Working relationship with FASB – lessons learned
- User Panel – working with the FASB
- FIN 48 wrap up
- FIN 46R
- Roadmap for private companies if public companies adopt International Financial Reporting Standards
- Financial Statement Presentation project
- Financial Instruments with Characteristics of Equity project

Based on that meeting, the following decisions and observations arose:

- Future PCFRC recommendations, comment letters and meeting minutes will contain more detailed content about committee discussions, basis for recommendations and comments, and the different opinions that may be expressed by PCFRC members on a topic.
- During a project discussion, PCFRC members will indicate which key points should be included in the minutes and basis for conclusions.
- FASB members believe the formation of a private company financial statement “User Panel” would be beneficial to the PCFRC’s work.
- When necessary, the PCFRC will inform the FASB of accounting matters that are of concern to private company constituents that it believes should be placed on the FASB’s agenda.
- By reviewing its interaction with the FASB related to its work on FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, and by an open discussion with FASB members about its work and processes to date, the PCFRC will make changes in some of its procedures going forward.

- The PCFRC will meet with FASB members once-a-year and more often if important issues arise that require face-to-face meetings.
- When conducting surveys of private company financial statement preparers, practitioners, and users, the PCFRC will consider vetting its survey questions with the FASB to improve survey participation and results.
- Committee surveys will present more educational background on the topic in question (FASB materials can be utilized) and will present what effect the proposed accounting standard may have on a user of financial statements (for example, present a financial statement disclosure as it is currently required and present what that disclosure would look like under the proposed accounting standard.)
- Depending on the accounting standard or topic being addressed, PCFRC financial statement user members should consider consulting with their professional organizations for further input. Additionally, the PCFRC should consider reaching out to its User Panel for further input. Face-to-face meetings between the User Panel and the FASB should be considered on important projects.
- The PCFRC should consider the effect of a proposed accounting standard on private company financial statement users within the context of general purpose financial statements.

Information and highlights about the other topics discussed with the FASB are included below under the topic headings.

### **New Financial Statement User Panel and Interaction with the FASB**

Depending on the project, a subgroup from the PCFRC's new User Panel will meet with FASB members to better educate the FASB about the viewpoints of private company financial reporting users on a particular proposed accounting standard. In some cases, this subgroup may consist of the four "user" members of the PCFRC after those members consult with their professional organizations. In an effort to form a sizeable financial statement User Panel, the PCFRC will work with its key "user" organizations to communicate with those organizations' members and encourage them to join the new Panel. Furthermore, when certain members of the User Panel are selected to meet with the FASB on a critical accounting matter, a PCFRC "user" member will be always be present. Panel members will need to be pre-educated on a project topic.

### **Financial Statement Presentation Project**

The PCFRC discussed the Discussion Paper issued by the FASB on its Financial Statement Presentation project. Comments are due to the FASB by April 14, 2009. This project will affect all private company constituents and is considered a critical project by the Committee. The comment letter will present the pros and cons of the proposed Standard in the private company arena. Reactions to the proposed Standard by the financial statement users, preparers, and practitioners on the Committee will be presented in the letter. The most important aspect of the PCFRC's letter will be its focus on financial statement users' reaction to the proposed Standard and how the costs and benefits of the proposed Standard are perceived in the lending, surety, and venture capital user sectors.

A number of opinions on the costs and benefits of the proposed Standard were discussed by Committee members. The discussion revealed a diversity of opinion on the merits of the proposed Standard. The PCFRC's plan going forward will be to 1) conduct outreach with key financial statement user professional organizations, such as the Risk Management Association and the National Venture Capital Association; 2) conduct outreach with the PCFRC's Resource Group and User Panel; 3) incorporate the results of that research into the development of a comment letter to the FASB.

### **Roadmap for Private Company Accounting**

The PCFRC will issue a letter in response to the Securities and Exchange Commission's ("SEC") *Roadmap for the Potential Use of Financial Statements in Accordance with International Financial Reporting Standards by U.S. Issuers*. This letter will state that the Committee believes a comprehensive parallel initiative for private company financial reporting, involving the key constituents of that reporting, is necessary if the SEC initiative moves forward. Such a parallel initiative would help ensure that any changes in the accounting standards setting structure in the U.S. would consider the needs of and make sense for constituents of U.S. private company financial reporting. The PCFRC letter will be sent to the FASB, where it can be incorporated into the FASB's response to the SEC.

Present at the meeting were two representatives from the National Association of State Boards of Accountancy ("NASBA"), who spoke to the PCFRC about their thoughts on the future of private company accounting and other matters. The PCFRC and the NASBA representatives agreed that a major in-depth effort, involving key private company constituent organizations, is needed to address the roadmap ahead for private company accounting. The PCFRC and the NASBA representatives also agreed that the two parties should work more closely on this issue.

### **Lease Accounting Project**

Recent decisions reached by the FASB on their lease accounting project were discussed by the PCFRC. Questions were raised about how plain-vanilla leases will be accounted for and how one would determine whether such leases would be within the scope of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* ("FIN 46R"). The PCFRC will continue to monitor this project and prepare a comment letter when the FASB issues the related Discussion Paper.

### **Proposed FASB Staff Position FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* ("Proposed FSP FAS 107-a")**

The disclosures required by Proposed FSP FAS 107-a were reviewed by the Committee. The Proposed FSP will affect a significantly larger group of private companies than the FASB may have intended. FASB Statement No. 126's exemption from the requirements of FASB Statement No. 107 for nonpublic entities does not apply to those nonpublic entities that have derivative instruments. When originally issued, FASB Statement No. 126's exemption applied to most private companies because very few of those companies

had derivatives. Since that time, the use of interest rate swap derivatives has become much more prevalent among private companies. Thus, the use of a basic interest rate swap derivative draws many private companies into the scope of FASB Statement No. 107 and therefore many private companies will be drawn into the scope of the Proposed FSP, which the PCFRC assumes is not the intent of the FASB.

The PCFRC is not aware of any compelling private company financial statement user need for this type of information that justifies the significant departure from the FASB's normal deliberative due process.

Based on the foregoing, the PCFRC will prepare a letter to the FASB, recommending that the disclosure requirements of the Proposed FSP be made applicable only to the industries and constituencies where these disclosures are needed. An option for the FASB to consider is exempting from the scope of the Proposed FSP private companies whose total assets are less than \$100 million on the date of the financial statements, including those private companies that have interest rate swap derivatives. (Note: the PCFRC issued a comment letter which is available at [http://www.pcfrc.org/downloads/PCFRC\\_comment\\_letter\\_on\\_FSP\\_FAS\\_107\\_a\\_fina\\_1\\_15\\_09.pdf](http://www.pcfrc.org/downloads/PCFRC_comment_letter_on_FSP_FAS_107_a_fina_1_15_09.pdf))

**Proposed FASB Staff Position FAS 141(R)-a, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies***

The PCFRC reviewed the requirements of the Proposed FSP and decided to issue a comment letter to the FASB. The PCFRC supports the Proposed FSP and believes it will improve financial reporting for private companies. In addition, the PCFRC will suggest that the FASB consider whether applying the approach adopted in the Proposed FSP to other areas of business combination accounting, such as the accounting for contingent consideration, would improve financial reporting. Finally, the PCFRC believes that the Decision Trees included in Appendix A of the Proposed FSP are useful tools and therefore should be included in the final FSP. (Note: the PCFRC issued a comment letter which is available at [http://www.pcfrc.org/downloads/PCFRC\\_comment\\_letter\\_on\\_FSP\\_FAS\\_141\(R\)\\_a\\_final\\_1\\_15\\_09.pdf](http://www.pcfrc.org/downloads/PCFRC_comment_letter_on_FSP_FAS_141(R)_a_final_1_15_09.pdf))

**Loss Contingencies Project**

FASB staff updated the PCFRC about recent developments in the development of the proposed Statement of Financial Accounting Standards, *Disclosure of Loss Contingencies*. The PCFRC issued a comment letter on the project on August 8, 2008. The FASB will be re-deliberating the project in the near future.

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

The Committee discussed the recently issued FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (“FSP FIN 48-3”). The PCFRC took note of the fact that if a nonpublic enterprise elects to defer the application of FIN 48, FSP FIN 48-3 requires that enterprise to explicitly disclose that fact and disclose its accounting policy for evaluating tax positions. Committee members

are concerned that many private companies will not be aware of these disclosure requirements even if they are aware of the deferral of the effective date of FIN 48. To help improve awareness of these disclosure requirements, the PCFRC will utilize AICPA communication vehicles to inform private company financial statement preparers and practitioners.

### **FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities***

The PCFRC broke out into subgroups to work with the Practitioners Publishing Corporation (“PPC”) worksheet on determining the impact of FIN 46R on a reporting entity. The subgroups applied the worksheet to some typical private company arrangements. The results of the work reinforced the PCFRC’s observation that diversity in applying FIN 46 exists in the private company sector. The Committee will continue its efforts to work with the FASB in seeking a solution to minimize diversity. To that end, the PCFRC will provide the FASB staff with the PPC worksheet and some typical private company arrangements that may trigger a FIN 46R assessment.

### **Financial Instruments with Characteristics of Equity**

The Committee discussed recent developments related to the FASB’s Preliminary Views, *Financial Instruments with Characteristics of Equity*. The PCFRC noted that the FASB recently decided that all instruments that have no contractual settlement requirement (perpetual instruments) and entitle the holder to a share of the issuer’s net assets in liquidation should be classified as equity. This decision is a positive development for private companies and addresses one of the issues the PCFRC had with the Preliminary Views, which it communicated to the FASB in its May 23, 2008 comment letter.

### **Discontinued Operations Proposed FSP**

The PCFRC affirmed their previous decision to issue a letter to the FASB commenting on Proposed FASB Staff Position FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation* (“Proposed FSP”). In the letter, the PCFRC will recommend that the proposed FSP define and provide guidance of an operating segment and not refer to the definition of an operating segment in FASB Statement No. 131. (Note: The PCFRC issued a comment letter, which can be found at [http://www.pcfrc.org/downloads/PCFRC Comment Letter on FSP FAS 144d final 12 309.pdf](http://www.pcfrc.org/downloads/PCFRC%20Comment%20Letter%20on%20FSP%20FAS%20144d%20final%2012%20309.pdf)).

### **IFRS for Private Entities Project**

The International Accounting Standard Board’s International Financial Reporting Standards for Non-Publicly Accountable Entities, which is expected to be finalized and issued in the first quarter of 2009, was discussed by the PCFRC. The PCFRC will explore field testing the Standard and devote time at its April 2009 meeting to examining the details of the final Standard, with the aid of someone integrally connected with its development.

### **Fair Value Accounting**

In light of the recent spotlight on fair value in the financial news, the PCFRC discussed their experiences with factoring illiquid markets into fair value measurements.

### **Administrative Matters**

New PCFRC members John R. Burzenski (Burzenski and Company, pc) and Steven A. Shelton (Way, Ray, Shelton, and Company) were welcomed by the Committee. The PCFRC looks forward to working with John and Steve and to their contributions to the Committee.

### **Next PCFRC Meetings**

The PCFRC will hold its next meeting on April 23-24, 2009 in San Antonio, Texas. Beyond April, the PCFRC has set the following tentative meeting dates and places.

June 25-26, 2009 – Baltimore, Maryland

August 6-7, 2009 – Cleveland, Ohio

October 22-23, 2009 – Charlotte, North Carolina

December 3-4, 2009 – Norwalk, Connecticut

These dates and places are subject to change.