

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights September 18-19, 2008

Boston, Massachusetts

All PCFRC members, except Carisa Wisniewski and Judd Rabb were in attendance.

Financial Accounting Standards Board Staff: Paul Glotzer

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

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

The PCFRC discussed recent developments related to FIN 48, including the results of a panel of private company financial statement users which met at the FASB to discuss their unique needs and FIN 48. The PCFRC’s ongoing and recent interaction and communication from its constituents made clear the need for the FASB to decide directly whether it will honor the PCFRC’s May 30th recommendation (see http://www.pcfrc.org/downloads/PCFRC_Recommendation_Letter_issued_to_FASB_FIN_48.pdf) to exempt private companies from FIN 48. As a result, the PCFRC decided to issue another letter (http://www.pcfrc.org/downloads/PCFRC_September_23_letter_to_FASB_on_FSP_FIN_48.pdf), asking the FASB to decide quickly about the PCFRC’s May 30th recommendation letter. Further, the letter would state that if an exemption is not granted, the FASB should reconsider the disclosure requirements of FIN 48 for all private companies. FASB should also consider, for pass-through entities, exemption from FIN 48 or implementation guidance.

Subsequent to the PCFRC issuing this letter, the FASB met on October 1, 2008 and, among other things, discussed the applicability of FIN 48 to private companies. See a summary of the FASB’s decisions on the PCFRC web site at http://www.pcfrc.org/downloads/Current_News.pdf

FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (“FIN 46(R)”)

The PCFRC continued its discussion about FIN 46(R) and the issuance by the FASB of an exposure draft to amend it. The Committee’s task force on FIN 46R will begin work on examining the exposure draft and preparing a comment letter.

Conceptual Framework for Financial Reporting

Two FASB-IASB documents were discussed by the PCFRC:

- Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*
- Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*

The PCFRC decided to issue letters to the FASB on both documents and developed comment points for the letters. Those comment letters were finalized and issued after the meeting. They are available at <http://www.pcfrc.org/recommendations.html>.

Project Planning

The PCFRC engaged in project planning and reviewed the current projects on the FASB's agenda. After ensuring it identified all the projects it needs to be addressing, the PCFRC made the following decisions:

- The Committee task force on the Financial Statement Presentation project will be expanded.
- The PCFRC will review the letter that the AICPA's Technical Issues Committee ("TIC") issued to the FASB about the Exposure Draft, *Accounting for Hedging Activities*. After review, the PCFRC will decide whether it will issue a letter to the FASB in support of TIC's position.
- Proposed FSP FAS 157-c, *Measuring Liabilities under FASB Statement No. 157*, will be reviewed by the PCFRC to identify any issues that may be of concern to private companies.

Revenue Recognition

The Committee conducted an educational session about the joint FASB-IASB project on revenue recognition. Recent project activity was reviewed. Given the great importance of this project and its vast impact, PCFRC members were of the opinion that field testing the eventual standard would be worthwhile. Committee members decided to submit to the FASB staff revenue recognition examples.

FASB Project on Subsequent Events and Going Concern

The PCFRC discussed the FASB's plans for incorporating guidance on subsequent events and going concern into the FASB Accounting Standards Codification, and concluded that any remaining issues in these areas exist primarily in the attestation professional literature. The PCFRC will review the proposed guidance when issued by the FASB.

International Financial Reporting Standards (“IFRS”) for Private Entities

The PCFRC reviewed recent developments in the International Accounting Standards Board’s IFRS for Private Entities project. Given the potential importance of this proposed international standard for U.S. companies, the PCFRC will continue to monitor its progress. Also, the PCFRC suggested that a limited field test of the final IFRS for Private Entities in the United States might be helpful in assessing its pros and cons. Information about this project is found at .

<http://www.iasb.org/Current+Projects/IASB+Projects/Small+and+Medium-sized+Entities/Small+and+Medium-sized+Entities.htm>

Discontinued Operations

The objective of this FASB project is to develop a converged definition of a *discontinued operation* with the IASB along with converged disclosure requirements for all components of an entity that have been (or will be) disposed of. The FASB staff updated the PCFRC about the project. The Committee is of the opinion that any final standard or guidance should not refer to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, as this Standard is not applicable to private companies. Instead, any final issuance on discontinued operations should be self-contained. The PCFRC will monitor this project.

Lease Accounting

Recent developments in the FASB’s project on lease accounting were reviewed by the PCFRC. A Preliminary Views document is expected to be issued during the last quarter of 2008. The Committee will review that document and determine whether any recommendations are necessary.

Reliability Project of the Accounting and Review Services Committee (“ARSC”)

The Committee learned about the progress of the ARSC’s Reliability project. This project aims to change the performance and reporting of review engagements. Information about this project is found at

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Trust+Standards/ARSC+Reliability+Project.htm>

Creation of PCFRC User Panel

A panel of private company financial statement users will be formed by the PCFRC to help the Committee better understand and analyze the need for differential accounting as it addresses prospective and existing accounting standards. The panel will be formed from existing PCFRC Resource Group members and the PCFRC will broadly seek other members. This user panel will be solicited for specific opinions and advice on the PCFRC’s projects.

Administrative Matters

PCFRC member Thomas A. Ratcliffe, Ph.D., CPA is rotating off the committee. The PCFRC is thankful to Tom for his valuable service on the Committee. His insightful opinions, years of experience, and accounting knowledge helped lead and shape the PCFRC's work during its first two years. His friendship and sense of humor was much appreciated by the Committee. The PCFRC wishes him well and hopes he will continue to be a resource to the Committee.

Joining the PCFRC is Thomas J. Groskopf CPA, MBA, CVA. Tom is currently the Accounting and Audit Technical Director (Partner) at Barnes, Dennig & Co., Ltd., based in Cincinnati, Ohio. He was recently Chairman of Zone 1 (Accounting Standards) of the AICPA's PCPS Technical Issues Committee. The PCFRC welcomes Tom and looks forward to working with him.

Next PCFRC Meetings

The PCFRC will hold its next meeting on November 13-14, 2008 in New Orleans, Louisiana. Beyond November, the PCFRC has set the following tentative meeting dates and places.

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.