Private Company Financial Reporting Committee
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 443-480-5800
e-mail: judyodell@dmv.com

Judith H. O'Dell CPA CVA
Chair

March 29, 2011

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Impairment* ("Supplementary Document")

Dear Ms. Seidman:

The Private Company Financial Reporting Committee ("PCFRC") has reviewed the Supplementary Document and offers its comments and recommendations related to select respondent questions below. Although the Supplementary Document's scope is limited to financial assets managed in an open portfolio, it appears that non-financial institution private companies with notes receivable and those that retain their finance receivables will be affected by the proposed requirements. In addition, the Supplementary Document states that the boards expect to use the comments received to determine whether a single impairment model should be applied to all financial assets or whether there are differences that justify multiple impairment models. As such, the PCFRC is commenting on the Supplementary Document because of its possible effect on the financial reporting of many non-financial institution private companies. The PCFRC is **not** commenting on how the Supplementary Document affects financial institutions.

Respondent Question 2: Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not? Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

PCFRC Response: The PCFRC recommends clarifying the scope of the Supplementary Document. The Committee has raised the following concerns and a scope clarification will help determine whether these concerns need to be addressed:

- Committee members are uncertain about the definition of an open portfolio and whether trade receivables are included in the scope of the proposed requirements.
- The Supplementary Document appears to apply to other financial instruments carried at private companies, such as notes receivable from customers. Numerous private companies carry long-term notes receivable and some private companies retain their financing receivables (for example, furniture and musical instrument retailers). The proposed model may not be a suitable method of accounting for impairment on those financial instruments because it does not appear to meet the cost/benefit test. Financial statement users on the PCFRC do not believe the information provided by the proposed model will be relevant to their decision making. In addition, PCFRC members who are financial statement preparers believe the proposed model will be expensive and impractical to apply to these financial instruments given the depth of analysis and model building that will be required.
- The proposed impairment model in the Supplementary Document does not appear to be operational for portfolios containing relatively few instruments. The proposed model seems better suited to large portfolios of financial instruments.

Respondent Question 4: Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

PCFRC Response: Determining the time-proportional amount of remaining lifetime expected credit losses appears to be problematical for private companies with multi-year notes receivable from customers. The proposed approach introduces much more complexity into the accounting than the existing incurred loss model, in which calculations are based more on historical and current data and less on future projections. The existing accounting model provides private company financial statement users with sufficient decision-useful information about long-term notes receivable. Applying the proposed model to those instruments will increase costs at private companies, including increased audit fees, without providing commensurate benefit to the financial reporting users.

The PCFRC appreciates the FASB's consideration of these comments and recommendations. Please feel free to contact me if you have any questions or comments.

Sincerely,

Judith H. O'Dell
Chair
Private Company Financial Reporting Committee