

# **Report of Private Company Financial Reporting Committee**

**2010**

The Private Company Financial Reporting Committee (“PCFRC”) is part of a broad initiative by the Financial Accounting Standards Board (“FASB” or “the Board”) and the American Institute of Certified Public Accountants (“AICPA”) 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 conducts cost-benefit analysis to make formal recommendations to FASB about existing and prospective GAAP. Under protocols set up with the FASB, the Board must consider all recommendations. Decisions made concerning those recommendations become a part of the Board minutes.

## **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. The PCFRC welcomed two preparers and one CPA practitioner to the committee in 2010. Due to uncertainties about the future role of the PCFRC as the result of recommendations to be made by the Blue Ribbon Panel on Standard Setting for Private Companies, all current members of PCFRC were reappointed to an additional one year term.

## **Meetings**

The PCFRC held four meetings during 2010: April in Norwalk, June in Washington DC, September in Cincinnati and December in Norwalk. Beginning with our April meeting, a FASB Board member was assigned to attend each of our meetings. Our April and December meetings included a session with the full FASB. Board members attending our meetings were Leslie Seidman in April, Tom Linsmeier in June and Larry Smith in September. The PCFRC found the direct involvement with Board members extremely helpful in understanding projects and formulating recommendation letters. We had some interested constituents at some of the meetings and they were given privilege of the floor.

## **Changes in FASB’s Consideration of Nonpublic Entities in the Standard Setting Process**

At our April meeting the PCFRC was informed about the new formalized policy at the FASB to improve the process for receiving quality input to ensure that the financial reporting needs of nonpublic entities are adequately addressed. Some of the changes are as follows:

- The FASB staff will seek input specifically from those involved in financial reporting for nonpublic entities, including users, preparers, and CPA practitioners.

This will provide a better understanding of the effect of accounting alternatives and the potential effect of standard-setting activities on nonpublic entities.

- During the standard-setting process, the FASB staff will provide the members of the FASB with possible alternatives for nonpublic entities. These alternatives will be based on differences in user needs and cost-benefit considerations.
- The FASB will articulate within the basis for conclusions section of standard setting documents, both Proposed and Final Accounting Standards Updates (ASUs), the basis for its decisions on whether differences should exist for recognition, measurement, disclosure, transition, or effective date for nonpublic entities.
- As part of the FASB's due process for standard-setting activities on Proposed ASUs, the Board will explicitly request information on the standard's impact on nonpublic entities.
- Following the FASB's receipt of comment letters, the FASB will analyze and evaluate whether differences are warranted for nonpublic entities.

The PCFRC welcomed the changes and worked to keep the Board and staff apprised of private company issues.

## **2010 Recommendation Letters**

All recommendation letters and meeting minutes are posted to the PCFRC website: [www.pfcr.org](http://www.pfcr.org). The PCFRC issued the following recommendation letters to FASB during 2010:

January 27, 2010 Accounting for Financial Instruments

In this communication the PCFRC stated its belief that trade accounts receivable and trade accounts payable should be excluded from the scope of the project. This exclusion should only encompass trade accounts receivables and trade accounts payables that are within certain reasonable maturity limits, which can be determined by the FASB after proper consideration. In the exposure draft, trade accounts receivable and payable with a maturity of less than a year were scoped out.

March 2, 2010 Applicability of the Financial Statement Presentation Project to Nonpublic Entities

July 20, 2010 **Proposed Statement of Financial Accounting Concepts – Conceptual Framework for Financial Reporting: The Reporting Entity**

September 15, 2010 **Proposed Accounting Standards Update, Disclosure of Certain Loss Contingencies** (“Proposed ASU”)

September 23, 2010 **Proposed Accounting Standards Update, Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs**

PCFRC stated in this communication that it “does not believe that the measurement uncertainty analysis put forward in the proposed ASU passes the user needs/cost benefit test in the private company sector. Consequently, the PCFRC recommends that the FASB exempt private companies from the measurement uncertainty analysis disclosures.” At its December 21, 2010 meeting FASB voted to amend disclosure requirements for private and not-for-profit entities applying accounting rules for fair value measurements.

October 8, 2010 **Proposed Accounting Standards Update**, *Statement of Comprehensive Income*

October 21, 2010 **Proposed Accounting Standards Update**, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

October 29, 2010 **Proposed Accounting Standards Update**, *Revenue from Contracts with Customers*

November 3, 2010 **Proposed Accounting Standards Update**, *How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test*  
PCFRC’s communication on this issue included the following comment:

“As the FASB is aware, IFRS for SMEs has differential accounting for goodwill. We are not currently advocating that the FASB converge goodwill accounting with IFRS for SMEs. However, we would like to point out that other standard setters have recognized the unique challenges in goodwill accounting for private companies and provided standards that were responsive to those needs. We hope that the FASB will take the opportunity to address these issues for private companies in the United States.”

FASB has added a project to address goodwill impairment assessments for private companies.

November 9, 2010 **Proposed Accounting Standards Update**, *Disclosure about an Employer’s Participation in a Multiemployer Plan*

December 15, 2010 **Proposed Accounting Standards Update**, *Leases (“proposed ASU”)*

### **Interaction with FASB Staff**

During 2010 the PCFRC communicated with FASB project staff as needed and met with staff when meeting in Norwalk. At the December meeting the PCFRC met with Mark Schroeder to discuss ways PCFRC could assist with the post implementation review process.

## **Outreach**

### **Blue Ribbon Panel on Standard Setting for Private Companies**

The PCFRC chair was a participating observer and one of the staff to the Panel. She attended all meetings and assisted with drafting of agendas, minutes, and the final recommendation report.

### **Small Business Advisory Committee (SBAC)**

The PCFRC chair attended the April SBAC meeting and gave an update on PCFRC activities. The PCFRC December meeting included a joint session with the Small Business Advisory Committee and a report on PCFRC activities presented by the chair.

### **Emerging Issues Task Force (EITF)**

The PCFRC chair was appointed as a participating observer to the EITF and will begin attending meetings in 2011.

### **FASB Roundtables**

The PCFRC chair attended FASB roundtables on Financial Instruments, Private Company Accounting, and Revenue Recognition. Various PCFRC members also participated in FASB roundtables.

### **Financial Executives International (FEI)**

PCFRC chair participated in a phone meeting with FEI's Committee on Private Company Standards.

### **Financial Accounting Foundation**

PCFRC Chair attended the FAF's November meeting in connection with a report on the Blue Ribbon Panel.

## **Presentations**

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

### **Chair**

- Michigan Society of CPAs -Current Accounting Issues Conference (2 locations)
- AICPA-International Business A&A and Tax Conference
- Maryland Association of CPAs-CPA Summit
- AICPA-National Advanced Accounting and Auditing Conference (NAATS) (3 Sessions)
- Pennsylvania Institute of CPAs-Accounting & Auditing Conference
- Maine Society of CPAs-Private Company Financial Reporting Update

Louisiana Society of CPAs-Accounting and Auditing Conference  
AICPA-Fall Council Meeting  
California Society of CPAs-A&A Conference (Los Angeles and San Francisco)  
North Carolina Society of CPAs-A&A Conference  
North Dakota Soc CPAs-A&A Conference  
Accounting CPE Network-Broadcast A&A Conference  
Deloitte & Touche-D-Briefs webcast  
Construction Financial Management Association (CFMA)-Philadelphia Chapter Meeting

### **Committee Members**

Price Waterhouse -Revenue Recognition- Surety view  
AICPA-NAATS  
Quality Construction Alliance Group- Disclosures about Multi-Employer Plans  
CFMA-Webinar on Revenue Recognition  
ABC and CFMA-Webinar on Revenue Recognition  
AGC/CFMA -National Construction Industry Conference  
Florida Institute of CPAs/CFMA - Construction Conference  
Houston Chapter CFMA- Chapter meeting  
Arizona Society of CPAs/CFMA- Construction Conference in Phoenix, AZ  
Albuquerque Chapter of CFMA -Chapter meeting  
RMG Accounting Task Force Meeting  
Key Corp -Risk Review Group  
RMA -Credit Review Roundtable (Chicago, IL)  
AICPA-Controller's Conference West  
RMA -Annual Meeting  
AICPA-Controller's Conference East  
Grant Thornton-Webcast on Private Company Financial Reporting  
KPMG-Webcast on Private Company Financial Reporting  
Ohio Society of CPAs-Cincinnati Accounting Show  
PKF-National Partners Conference  
Ohio Society of CPAs- Corporate CPA conference