new york state society of
NYSSCPA
certified public accountants

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June 21, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Invitation to Comment – *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*

(File Reference No. 2013-250)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned invitation to comment.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed guide and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

J. Michael Kirkland
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

INVITATION TO COMMENT – PRIVATE COMPANY DECISION-MAKING FRAMEWORK: A GUIDE FOR EVALUATING FINANCIAL ACCOUNTING AND REPORTING FOR PRIVATE COMPANIES

(FILE REFERENCE NO. 2013-250)

June 21, 2013

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New York State Society of Certified Public Accountants

Comments on

Invitation to Comment – *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*

General Comments

We are pleased to respond to the Invitation to Comment, Private Company Decision-Making Framework: *A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the ITC).

We have presented our responses to focus on the criteria that we believe are the most relevant for each of the Financial Accounting Standards Board (FASB) Private Company Council (PCC) staff's recommendations to give recognition to the various other factors included in those recommendations.

Responses to Questions

Question 1: Please describe the individual or organization responding to this Invitation to Comment. [Abridged.]

Response
We are the New York State Society of Certified Public Accountants, representing more than 29,000 CPAs in public practice, industry, government and education.

Question 2: Do you agree that this guide is based on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.

Response
We agree with the basic premises described in the Differential Factors. However, the PCC should consider the following aspects of the factors:

Access to Management
While we agree that many users of private company financial statements have greater access to management to obtain additional information, we do not agree with the implication that all users have access to the same information or have the ability to seek such access. Because we cannot assume that all users have less need for detailed note disclosures than users of public company financial statements, we believe that the financial statements should provide a baseline of measurements and disclosures on which users can request specific additional information that they may require.

This baseline is important because information outside the financial statements provided by management is generally not audited and may omit important information or contain misleading information. As a consequence, the use of financial statements to validate or corroborate information obtained from sources other than financial statements, as discussed in paragraph DF4, can result, on occasion, in the discovery of information overlooked or misunderstood.

The proposed guide may create legal problems for auditors. As we noted in our December 17, 2012 response to the FASB Invitation to Comment, *Disclosure Framework*, the concept of "enough" information is only understood by the user. Private company financial statement preparers and auditors do not have knowledge of the information requirements of all users, and these requirements are subject to change over time. Any process where auditors have contact with users to identify specific information needs may, in some states, create privity between those users and the auditors. Such privity could create even greater legal exposure for the auditors in litigation should users deem the financial statements incomplete.

Accounting Resources

As we noted in our November 8, 2012 response to the FASB ITC, *A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*, preparers and auditors have limited opportunity to obtain and digest the details of current accounting changes and updates despite the abundance of relatively low-cost accounting resources. In that response, we were unconvinced these difficulties are all from a lack of resources; rather they may result from not allocating sufficient time to obtain such knowledge as a result of either not understanding the need or reasonable cost benefit considerations. We have observed that management of some private companies have addressed complex accounting standards by outsourcing certain accounting functions. This resulted in reduced involvement in their financial reporting responsibilities and increased potential for accounting errors due to miscommunication between the parties.

A delayed issuance date of the financial statements is not always relevant. The private sector makes greater use of draft financial statements to make preliminary decisions than public companies.

This situation could be mitigated by extending the effective date of complex updates to one year after they become effective for public companies which would provide preparers and users additional time to understand how the updates are reflected in public financial statements.

Question 3: Overall, do you agree that this guide would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If it does not, what improvements can be made to achieve those objectives?

Response

Subject to our reservations presented in our response to Question 2 above, we generally agree with the questions set forth in paragraph 1.5, "Relevance to users," and paragraph 1.6, "Cost and complexity." We disagree with the assertion in paragraph 1.7 that FASB and PCC should give greater weight to the considerations in paragraph 1.5 and significant, yet lesser weight, to the considerations in paragraph 1.6. For example, paragraph 1.6(l) pertains to accounting updates that may affect debt covenants and contracts as a result of applying the guidance. In our experience, lenders and other users are very interested in any accounting changes affecting debt covenants and contracts. These users will require information which reflects the impact of accounting updates on the financial statement and associated notes.

In addition, the concerns by users, preparers and auditors over the cost and complexity of accounting treatments were important factors in establishing the PCC and should not be given subordinate status to other considerations. Accordingly, we believe that the PCC should critically evaluate how the factors in paragraphs 1.5 and 1.6 are weighted so that the factors in paragraph 1.5 do not almost or always trump the factors in paragraph 1.6, particularly when subjectivity is involved in the decision making process.

Question 4: With respect to industry-specific guidance:

a. **Do you agree that this guide appropriately considers industry-specific accounting guidance for private companies? That is, should private companies follow the same industry-specific guidance that public companies are required to follow in instances in which the Board and the PCC determine that the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?**
b. **Do you think factors other than user relevance, such as cost and complexity, should be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance?**
c. **Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?**

Response
We agree that industry-specific guidance is appropriate to reflect unique transactions of various industries and that the same measurement and recognition principles are applicable to both public and private companies operating in these industries. Further, the accounting for industry-specific transactions should not differ between public and private companies.

Notwithstanding the foregoing, we believe that there would be less need for disclosures required of nonpublic companies in areas such as fair value disclosures because analysts and investors of public companies are more likely to use such fair value disclosures than users of nonpublic companies. This distinction relieves nonpublic companies from the burdens of additional disclosures because users of nonpublic financial statements, such as lenders and regulators, can obtain additional fair value information if needed. Most importantly, we support having both public and nonpublic companies follow the same recognition and measurement requirements.

Question 5: Do the different sections of this guide appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the *red-flag approach* often used by users when reviewing private company financial statements (see paragraphs BC45 and BC46)? If not, why?

Response
The guide should address the needs of all types of users. We disagree with the paragraph BC7 designation of existing and potential investors, lenders and other creditors as primary users whose needs are superior to those of regulators, sureties, agents and insurance providers. Financial statement preparers (and in certain circumstances auditors) may have considerable legal exposure to regulators, sureties, agents and insurance providers and, accordingly, consider them as important as the primary users designated by the Board.

As noted in our response to Question 2, preparers and auditors do not always have complete knowledge of the users' needs. The red-flag approach presented in Paragraphs BC45 and BC46 is not effective because there is no guidance provided in determining the appropriate level of disclosure. We disagree with the notion that certain users are more important than others and the financial statement disclosures should be limited to information that the preparers and auditors think may be of interest to a subset of users. Private company financial statements currently provide what might be considered potential red flags and, in our experience, users currently follow up with questions. However, any information outside the financial statements provided to users is not audited and could be incomplete or misleading.

Question 6: Paragraph 1.5 includes the following questions for the Board and the PCC to consider in the recognition and measurement area of the guide:

> **1.5(e) Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?**
> **1.5(h) Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?**
> **1.5(i) Is the lag between the year-end reporting date and the date financial statements are issued and made available to users likely to significantly dilute the relevance of the information resulting from the guidance?**

Do you believe that the questions listed above are necessary for considering alternatives for private companies within recognition and measurement guidance? Or are the other questions in paragraph 1.5 sufficient for considering when alternative recognition and measurement guidance is appropriate for private companies within U.S. GAAP?

Response
As discussed in our response to Question 2, certain guidance in paragraph 1.5 does not fully address alternatives in recognition and measurement guidance for private companies. As discussed in our response to Question 3, the matters discussed in paragraph 1.6 should be given equal consideration.

Question 7: Do you agree that a private company should be eligible to select alternatives within recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement? Do you agree that, in certain circumstances, the Board and the PCC

may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? If not, why?

Response
The main issue is whether the PCC is preparing a new accounting basis or set of Generally Accepted Accounting Principles (GAAP) with specified exceptions and modifications. Paragraph 5 of the ITC notes that the proposed guide is not intended to be an entirely new conceptual framework of an accounting basis fundamentally different from that applied by public companies. Current GAAP permit exceptions and modifications in such areas as earnings per share, segment disclosures and employee benefit plans. Private companies are not required to provide this information but are not precluded from doing so.

Accordingly, we believe that private company financial statement preparers should be permitted to select accounting rules applicable to public companies as well as apply the exceptions and modifications permitted by PCC. Not every permitted difference in recognition and measurement guidance may provide the most relevant information to users of financial statements or for the companies operating within the industry. As we noted in our response to Question 3, lenders and other users are very interested in any accounting changes affecting debt covenants and contracts. Thus, preparers should present information required/needed by their particular users even if GAAP permits an exception or modification. This approach provides flexibility and maintains disclosures that are relevant to the financial statements. The financial statements should disclose the recognition and measurement standards used. The disclosure guidance could either be the full disclosures required for public companies or some modified version specifically permitted for private companies.