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May 22, 2013

Technical Director
Financial Accounting Standards Board
File Reference No. 2013-250
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Private Company Decision-Making Framework

The Accounting Principles & Auditing Standards Committee of the California Society of CPAs is pleased to respond to the April 15, 2013 Invitation to Comment *Private Company Decision-Making Framework* on behalf of the Society.

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 40,000 members. The Committee is comprised of 53 members, of whom 47 percent are from local or regional firms, 27 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international firms.

We note that the first six questions 1 through 6 and Question 7 are very similar to Questions 1 through 6, and Question 13a, respectively, in the July 31, 2012 Invitation to Comment. Our opinions have not changed based on the April 15, 2013 Invitation to Comment, so we have repeated our responses (dated October 25, 2012) to the July 31, 2012 Invitation to Comment in this letter.

On February 8, 2013 we sent a letter to Mr. Billy Atkinson, Chair of the Private Company Council, expressing concern about the PCC's approach to this project, and we attach that letter. The PCC has not made any significant progress in dealing with the basic questions set forth in that letter; in fact, the PCC seems to be heading in a different direction. What is needed is a comprehensive GAAP framework for Private Companies with few alternatives in recognition and measurement guidance within that framework. Otherwise, GAAP for Private Companies will a confusing mélange of different principles that will likely be of little use to anyone.

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

a. Please indicate whether you are a financial statement preparer, user, or public accountant, or if you are a different type of stakeholder, please specify. Please indicate if you are both a preparer and a user of financial statements.

California Society of CPAs (CalCPA) Accounting Principles and Auditing Standards Committee – We speak for the 40,000 members of the CalCPA.

b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your business and its size. If applicable, describe any relevant prior experience in preparing financial statements for private companies or public companies.

c. If you are a user of financial statements, please indicate in what capacity (for example, investor or lender) and whether you primarily use financial statements of private companies or those of both private companies and public companies.

d. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on private companies or both private companies and public companies.

Question 2: Do you agree that this guide is based on the appropriate differential factors between private companies and public companies (see paragraphs DF1o 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.

Yes, we believe the staff has identified and focused on the appropriate differential factors.

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?

No, we do not believe the recommendations would lead to decisions that provide relevant information in a more cost-effective manner.

¶1.2 uses "relevance" as a threshold. We think it would be generally fair to say that U.S. GAAP provides relevant information. The issue is whether the information should be provided in the financial statements. Also, relevant is not the same as "necessary". Relevance for large and public entities can differ from relevance for smaller or private companies. This runs to both measurement and disclosure. For example, many would agree that capitalization of interest, considered relevant for public companies, is not relevant for private companies. Similarly, accounting for deferred income taxes is generally considered relevant for all affected entities, but practical alternatives to complex calculations would seem to be warranted for private companies. At some level, almost any information can be considered relevant, although it may not be necessary, so the criterion should be recast to "relevance and necessity."

¶1.3 talks about "practical expedients" as possibly being available. We believe they are generally available and therefore the need for the financial statements to be the source of the information is generally absent. This is recognized in ¶1.7, but soft-peddled; the statement should be more forceful about this being a good reason for a differential standard.

In ¶1.6 cost and complexity should be the primary filter; if the measurement or disclosure is costly or complex, then its necessity should be considered in view of the relevance; if it is considered relevant then a practical expedient should be created to reduce cost or complexity. Exceptions and modifications to reduce cost and complexity should always be considered.

¶1.8 gives too much weight to getting permission from users. Users with specific needs can directly deal with the entity. Achieving a consensus from users will be a high bar and will result in little change. (See also ¶2.5)

¶1.9 will operate to undermine the valid view that access to management is a key difference between public and private company reporting.

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?

Yes, private companies should follow the basic guidance, but relevance and necessity, cost and complexity, and practical expedients should be considered for the industry-specific guidance.

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?

See answer to 4a.

c. Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?

No, same criteria as in 4a above.

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 section appropriately describe the *red-flag approach* often used by users when reviewing private company financial statements (see paragraphs BC45 and BC46)? If not, why?

Yes and no. Although the framework seems to say the right things about reducing disclosure based on access to management, ¶2.1 once again undermines the concept by saying "If the Board and the PCC determine that a disclosure provides relevant information to typical users of private company financial statements at a reasonable cost, generally no exception or modification should be considered." How are the Board and PCC possibly going to evaluate this disclosure by disclosure including the reasonableness of the cost for every entity that might be involved? It's impossible and therefore the tendency will be to err on the side of conservatism resulting in little actual reduction of disclosure for the private companies.

See also ¶2.7 for more undermining.

This raises the question of whether we should be restricting the report to certain parties when we decide to reduce certain disclosures. Are the statements full GAAP unless we restrict the use? If it is not full GAAP, what is it?

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?

The key question is (h) under 1.5. If the answer is "yes", do the other questions really need consideration?

Question 7: (a) Do you agree that a private company generally should be eligible to select the 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?

If the PCC is creating a framework for private companies, then all guidance should be applied. If preparers and users are to understand financial statements under that framework, guidance must be applied consistently by all entities using that framework, and report any failure to apply that framework as an exception (similar to how exceptions from GAAP are currently reported). Otherwise there will be no framework, but a system of applying a confusing mélange of differences in recognition and measurement.

(b) 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?

No. If alternatives are properly limited, this question becomes moot.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

Michael D Feinstein

Michael D. Feinstein, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

See Attachment – CalCPA Society Letter Dated February 8, 2013

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February 8, 2013

Mr. Billy Atkinson
Chair
Private Company Council
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: U.S. GAAP for Private Companies

Dear Mr. Atkinson:

I am writing you as Chair of The Accounting Principles and Auditing Standards Committee ("the Committee") of the California Society of Certified Public Accountants ("CalCPA") on behalf of the CalCPA. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee includes 49 members, of whom 53 percent are from local or regional firms, 27 percent are from large multi-office firms, 10 percent are sole practitioners in public practice, 8 percent are in academia and 2 percent are in international firms.

The Committee has long believed that there is a need for a separate U.S. GAAP for private companies. We have closely followed the creation of the Private Company Council ("PCC") as well as the development of International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs), and the AICPA Proposed Financial Reporting Framework for Small and Medium-Sized Entities, a non-GAAP alternative framework ("FRF for SMEs"). The Committee believes that the recognition, measurement and disclosure provisions of GAAP (i.e., standard U.S. GAAP), which to a large extent are driven by the needs related to public entities, are too complex and lengthy to meet the needs of preparers and users of financial statements of most private entities.

The Committee is concerned about the pace of the PCC, and the failure of the PCC to make basic decisions on what it is trying to achieve. The Committee recognizes the need for a deliberative approach. But, the Committee believes that there are several basic questions that need to be addressed before the PCC addresses its technical agenda:

- The PCC needs to reach a conclusion on whether U.S. GAAP for Private Companies will be a comprehensive financial reporting framework.
- The PCC needs to decide whether differential, presumably lesser, disclosures will be part of U.S. GAAP for Private Companies.
- The PCC needs to decide whether there will be different recognition and measurement criteria in U.S. GAAP for Private Companies than those in GAAP.
- The PCC then needs to decide whether, if a private company adopts U.S. GAAP for Private Companies, it must adopt all provisions (the "all-or-nothing" approach).

In addressing these questions, the PCC should consider the purpose and objective of financial statements for private companies. For example, should the financial statements include all financial information needed by potential users or only basic information that may be supplemented outside the financial statements in response to questions from users, such as lenders? Also, is comparability among entities important? If so, alternative recognition and measurement criteria should be limited, whereas if not, broader alternatives may be considered.

At its meeting on December 6, 2012, the PCC chose four technical topics for discussion at its next meeting. The Committee does not question its choice of those topics as they have been problematic for private companies. More importantly, they might provide a useful reference point for discussion of the basic questions above. Unless the PCC reaches conclusions on all of the above basic questions, the Committee does not believe the PCC can reach useful conclusions on the technical topics.

The Committee believes that if the PCC's U.S. GAAP for Private Companies project is to be successful, a positive answer to each of the basic questions above is necessary. A comprehensive approach is necessary to meet the needs of preparers and users, and anything less than an "all-or-nothing" approach will undermine the credibility and usefulness of a comprehensive framework. We view differential disclosures as a *sine qua non* of the project (presumably, disclosures exceeding a minimum would be permitted). The Committee believes differential recognition and measurement for certain transactions is critical to any ultimate acceptance of U.S. GAAP for Private Companies; complex recognition and measurement provisions of U.S. GAAP have been a major complaint of private companies. The Committee points out that the IASB, faced with similar considerations, adopted different recognition and measurement standards in IFRS for SMEs than those in IFRS.

The Committee recognizes the need for a deliberative process by the PCC. However, the Committee sees little benefit to redeliberating the provisions of existing GAAP. It has taken the FASB decades to debate and create existing GAAP, and redeliberation of the old issues and possibly new ones may take a long time. What the PCC needs to do is accept that U.S. GAAP for Private Companies will differ from existing GAAP, and set standards based on simplicity and adherence to fundamental accounting concepts, while at the same time recognizing that those standards may lack the theoretical polish of existing GAAP. Both IFRS for SMEs and the AICPA's FRF for SMEs seem to have done this; while the Committee does not agree with certain provisions of those frameworks, the approach in each could be a useful basis for the PCC's approach in setting U.S. GAAP for Private Companies.

Finally, the PCC needs to set a reasonable time frame for completing U.S. GAAP for Private Companies, and the Committee believes it should be a matter of no more than several years. The Committee points out that the groundbreaking IFRS for SMEs were created in about four years, and the AICPA's proposed FRF for SMEs, which was announced at about the same time as formation of the PCC, was released about six months after announcement of the project and a month before the PCC's first meeting. The Committee suggests that the PCC may find the approaches used by the IASB and the AICPA to be useful examples of how to achieve completion of U.S. GAAP for Private Companies in a reasonable time frame.

The Committee strongly supports the PCC's creation of U.S. GAAP for Private Companies, and would be glad to discuss its comments further should you have any questions or require additional information.

Very truly yours,

Howard Sibel

Howard Sibelman, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

cc: Teresa S. Polley, President and CEO, Financial Accounting Federation