

Private Company Council

FASB Offices, 401 Merritt 7, Norwalk, Connecticut

Public Meeting Minutes

Tuesday, February 12, 2013

List of Participants

Private Company Council (PCC) Members

Billy Atkinson	George Beckwith	Steven Brown	Jeffery Bryan
Mark Ellis	Thomas Groskopf	Neville Grusd	Carleton Olmanson
Diane Rubin	Lawrence Weinstock		

Financial Accounting Standards Board (FASB)

Leslie F. Seidman	Daryl E. Buck	Russell G. Golden	Thomas J. Linsmeier
R. Hal Schroeder	Marc A. Siegel	Lawrence W. Smith	

Financial Accounting Standards Board Staff

Susan M. Cospers	Jeff Mechanick	Kevin Stoklosa	Michael Cheng
Elizabeth Gagnon	Daghan Or	Rahul Gupta	Bob Bhav
Gautam Goswami	Cullen Walsh	Patricia Donoghue	Kristen Bauer
Kailee Boyce	Callie Haley	Kathryn Cantlon	

Private Company Decision-Making Framework (PCDMF)

The staff outlined the proposed changes to the PCDMF based on comment letter responses and the PCC's observations from the meeting in December 2012. The proposed changes described in Memo No. PCDMF 1 and associated discussions on those changes are described below.

Question 1.5(j)

The staff proposed to clarify the term *untimely* in question 1.5(j) of the recognition and measurement module. Added text is underlined and deleted text is ~~struck out~~.

Is ~~an~~ the lag between the year-end date and the date financial statements are made available to users ~~untimely issuance of financial statements~~ likely to significantly dilute the relevance of the information resulting from the guidance?

The staff asked the PCC and the FASB whether they agreed with the inclusion of question 1.5(j) in the framework and, if so, whether the members of the PCC and the FASB agreed with the staff's revisions to question 1.5(j) in the framework.

One PCC member noted that the wording in question 1.5(j) should parallel the wording in question 2.3(g).¹ A Board member suggested that the staff change question 2.3(g) because the phrase *typical long duration* presumes it is more common than not for a private company to have a long duration between the balance sheet date and the issuance of its financial statements. Another PCC member noted that the point made in question 1.5(j) better correlates to cost and complexity than to relevance.

The PCC Chairman asked whether any Council members objected to the clarified wording as proposed by the staff with the editorial comments regarding question 2.3(g). No PCC members objected. The FASB Chairman asked whether any Board members objected to the proposed changes. No Board members objected.

Industry-Specific Presumption

The staff presented the proposed changes to the industry-specific presumption and asked the PCC and the FASB whether they agreed with the staff's revisions to the industry-specific presumption. The proposed changes as depicted in Memo No. PCDMF 1 are as follows (added text is underlined and deleted text is ~~struck out~~):

1.11 When the Board and the PCC are considering whether an exception or modification should be made to recognition and measurement requirements that affect industry Topics (Topics 905 through 995) of the FASB Accounting Standards Codification, the Board and the PCC would have to determine whether the exception or modification should amend the industry-specific accounting guidance for private companies. In making that determination, ~~When the Board and the PCC has determined that industry specific guidance is appropriate to reflect unique transactions, there is a presumption~~ should consider whether that

¹ Paragraph 2.3(g) of the PCDMF in the July 31, 2012 Invitation to Comment asks: "Whether the relevance of a disclosure is significantly reduced because of the *typical long duration* between the balance sheet date and the date that financial statements are finalized and made available to users [emphasis added]"

the same recognition and measurement guidance is relevant to financial statement users of both public companies and private companies operating in those industries. Regardless of other factors that differentiate private companies from public companies, some recognition and measurement guidance could be equally relevant to users of public company and private company financial statements because of the unique nature of certain industries and the often specialized accounting guidance that companies in those industries are required to apply and because of the potential need for greater comparability between private company and public company financial statements in regulated or highly specialized industries. ~~Entities that apply industry-specific accounting guidance include, but are not limited to, those subject to the guidance in the industry Topics (905 through 995) of the FASB Accounting Standards Codification[®] :~~

1.12 When the Board issues broad or objectives-based accounting guidance for which no industry-specific guidance is provided, the Board and the PCC would have to determine whether certain industries should be excluded from the scope when considering particular exceptions and modifications. That determination would need to be made on the basis of the relevance of the financial information to the financial statement users of private companies that have core operations in those industries. For purposes of readability, those considerations are incorporated into the staff's recommendations about how the Board and the PCC should evaluate industry-specific guidance throughout this framework. ~~Invitation to Comment.~~

A Board member agreed with the proposed changes to the industry-specific presumption. He commented that he originally supported the presumption as exposed in the Discussion Paper, but after hearing the feedback received from comment letters and the Small Business Advisory Committee (SBAC), he concluded that the presumption would only limit neutral thought and research in the areas of industry-specific guidance. He added that the proposed changes to the industry-specific presumption utilize softer language and will not pre-engineer the result when considering industry-specific guidance.

Another Board member disagreed with the proposed changes because he thinks there is no need to refer specifically to industry-specific guidance in the PCDMF. He stated that the thought process to determine the need for exceptions or modifications should be the same regardless of whether it is industry-specific GAAP or transaction GAAP.

Another Board member responded by explaining that when the Board deliberates an issue that affects a specific industry, there is a presumption that its decisions will be relevant for both public and private companies. He stated that there should be a hurdle when considering industry specific-guidance, but that it should be rebuttable.

A Board member expressed agreement with the staff's proposed changes. She acknowledged that feedback from the Discussion Paper comment letters and other forms of feedback were mostly supportive. She expressed confidence that the PCC will be cautious in deciding how to address issues that relate to industry-specific guidance and thinks that the proposed wording will allow them to accomplish that.

A PCC member originally believed that there was increased relevance to industry-specific guidance, but now agrees with the changes to the presumption as proposed by the staff. He believed that the presumption provides clarity and transparency to the decision-making process and to explicitly state this in the PCDMF can only help constituents and the PCC.

The PCC Chairman asked whether any Council members objected to the staff's recommendations. No PCC members objected.

The FASB Chairman asked whether any Board members objected to the staff's recommendations. Marc A. Siegel objected because the proposed changes lowered the hurdle when considering industry-specific guidance. Lawrence W. Smith objected because he believes there should be no specific reference to industry-specific guidance in the PCDMF. The Chairman counted Thomas J. Linsmeier as a likely objection, which he later confirmed.

"All or Nothing" – Recognition and Measurement

Regarding the *all or nothing* approach, the staff asked the FASB and the PCC whether they agreed with the staff recommendation to remain silent on the issue consistent with the discussion paper.

A PCC member expressed disagreement with the staff's proposal to remain silent on the *all or nothing* approach. Based on the outreach performed by the staff, comment letters submitted by constituents, and the stated opinions of Council and Board members, he thinks the PCDMF should explicitly state that the PCC and FASB do not favor the *all or nothing* approach. He expressed concern that the PCC may issue valuable exceptions and modifications, but that preparers may not utilize them for fear of being forced to take future exceptions and modifications. The PCC previously discussed the potential for creating baskets or linking related exceptions and modifications. The PCC member believes that stating the thought process of the PCC and the FASB will increase transparency.

Another PCC member expressed agreement and added that disclosure of the election to apply the exceptions and modifications taken by a private company should suffice.

A Board member supported not requiring the *all or nothing* approach, but stated that it would not be in the best interest of the PCC and the FASB to say that every exception or modification issued by the PCC will be elective because of the possibility for requiring linking of related exceptions and modifications. In the future, a conclusion by the PCC may have related follow-on answers that need to be linked. He believes that the PCDMF should state that the decision of the PCC and the FASB is not to require an *all or nothing* approach, but, instead, to leave flexibility with respect to linkages on a project-by-project basis.

Several PCC members agreed that the PCDMF should not remain silent on the *all or nothing* issue and supported the added transparency.

Another Board member was concerned that the range of exceptions and modifications, even with disclosures, may, in the longer-term, place a burden on users of financial statements because they will have to be familiar with all of the differences. He agreed that the *all or nothing* issue should be addressed now, and cautioned that as the number of exceptions or modifications grows, there could be a necessity for an *all or nothing* approach.

A Board member suggested that it is possible to move forward with the PCDMF and perform a review at some point in the future after the PCC and the FASB have more experience with the process. If the FASB and PCC learn that most preparers are taking all of the exceptions and modifications, the PCC and the FASB could take action to simplify the reading of the financial statements for users. She agreed with the group that they should state that there is no intent to require an *all or nothing* approach.

The PCC Chairman asked whether any Council members objected to the proposal to state that the decision of the PCC and the FASB is to not require an *all or nothing* approach in the PCDMF, but, instead, to leave flexibility with respect to linkages on a project-by-project basis. No PCC members objected.

The FASB Chairman asked whether any Board members objected. There were no objections, though Thomas J. Linsmeier abstained from the vote.

Red-Flag Approach

The staff outlined the proposed clarification of the wording around the red-flag approach. The staff asked the PCC and the FASB whether they agreed with the proposed change. Added text is underlined and deleted text is ~~struck out~~.

Many users of private company financial statements indicated that they use the notes to financial statements as a secondary source of information to validate previous knowledge and expectations and to engage in a more focused dialogue with management in what can be described as a red-flag approach to review (see paragraphs BR43 and BR44). In evaluating disclosure exceptions or modifications, the Board and the PCC should consider whether there will be sufficient disclosure in the notes necessary to facilitate a user's review and to allow a user to identify appropriate follow-up questions to present to management (the red-flag approach). ~~the remaining disclosure requirements would adequately facilitate the red flag approach applied by many users of private company financial statements in reviewing the notes to financial statements (see paragraphs BR43 and BR44).~~

A PCC member agreed with the staff's proposed changes.

A Board member said that the staff's proposed revisions in paragraph 2.5 imply that users will always engage in a more focused dialogue with management and suggested the phrase be changed to say that the red-flag approach should "provide sufficient information to determine *if and when* to engage in a more focused dialogue with management" to more accurately reflect reality.

The PCC Chairman asked whether any Council members objected to the staff's recommendation with the proposed editorial changes. No PCC members objected.

The FASB Chairman asked if any Board members objected. No Board members objected.

PCDMF Overall

The staff asked members of the Council and the Board whether they agreed that the proposed framework results in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a cost-effective manner.

A PCC member was pleased with the results that have come from the use of the draft PCDMF to the extent that it has already been utilized by the staff.

The PCC Chairman asked whether any Council members objected to the statement that the proposed framework would lead to decisions that provide relevant information to users of private company financial statements in a cost-effective manner. No PCC members objected.

The FASB Chairman asked whether any Board members objected. There were no objections; though Thomas J. Linsmeier abstained, stating that he would like to look into the industry-specific presumption further.

Exposure of the PCDMF

The staff presented considerations for the PCC and the FASB regarding the staff's recommendation to expose the PCDMF after deliberation by both the PCC and the FASB. The first exposure of the PCDMF in the Discussion Paper was based on the preliminary recommendations of the staff. The second exposure of the PCDMF will follow deliberation by the both the PCC and the FASB. The staff asked the Council and the Board whether they agreed with the staff recommendation to expose the PCDMF.

A Board member supported the staff recommendation, but was concerned that a May 15th comment period deadline would not provide sufficient time for respondents considering that it coincides with tax season. A PCC member said that most preparers have obtained extensions, and, therefore, will not be overly burdened by the comment period occurring contemporaneously with tax season. The staff noted that the PCDMF was previously exposed and that the proposed changes are not very significant.

The FASB chairman added that flagging specific changes to the PCDMF would aid respondents in giving targeted feedback. She also allayed concerns that exposing the document for a second time would cause a delay in the proceedings and discussions of the PCC. She expects that the PCC and the FASB would not be in a position to finalize any conclusions prior to the framework being finalized.

Another Board member was also concerned with the length of the comment period and added that it should not be rushed because the PCDMF is a fundamental document. He speculated that the minimal response to the staff Discussion Paper could have been because constituents believed that they would have another opportunity to comment once the PCC and the FASB expose the PCDMF. Other PCC members agreed that the framework should not be rushed and emphasized the importance of transparency of due process.

A PCC member asked whether the lack of a finalized framework would keep the Council from recommending any exceptions or modifications to the Board at the May meeting. The staff clarified that it would not. A Board member added that his ability to endorse a PCC conclusion would not be affected by the lack of a finalized framework. Another Board member said that the PCDMF is not authoritative, so its absence would not prohibit an endorsement from the Board.

However, this Board member would prefer the framework to be finalized before the endorsement of any final standards.

Some of the PCC members discussed the importance of soliciting comments from constituents and engaging them in the process. It was suggested that a contact list of private company constituents be developed.

The PCC Chairman asked whether any Council members objected to the staff's recommendation to expose the framework for a 90-day comment period. No PCC members objected. The FASB Chairman asked whether any Board members objected. No Board members objected.

Definition of a Nonpublic Entity

The staff presented the Definition of a Private Company memo and described the proposed scalable approach to help articulate how flexibility could be achieved with a standard definition of a private company as a starting point as discussed at the December 2012 meeting. The scalable approach of different types of private companies focuses on the six differential factors identified in the PCDMF and their implications for accounting and financial reporting guidance.

The staff noted that it will be bringing forth an analysis for the Board that will clarify the term *public market* as used in the tentative definition of a private company. The staff also asked for the PCC's feedback about the direction of the scalable approach, and whether such an approach would likely be useful to include in the PCDMF or whether members had any additional comments that should be taken into consideration.

A PCC member suggested that the staff add language, such as *generally yes* and *generally no*, into the matrix when considering whether a particular type of private company would be eligible for modifications or exceptions to U.S. GAAP for private companies. He also asked the staff to consider adding other types of entities, such as financial institutions and other entities deemed to be in a public market other than a registered exchange, such as secondary markets or pink sheets. He thought that the upcoming Board decision on the definition of *traded in a public market* may have implications as it relates to a matrix.

A Board member noted that the matrix suggests that public companies are generally outside of the framework except for conduit bond obligors, who are generally eligible for consideration regarding effective date. It also implies that private companies will always be considered in the framework although there are some instances in which that will not be the case. He added that eligibility might depend on the nature of the exception or modification being considered for the middle or mezzanine group of entities.

The staff clarified that there will be scoping decisions made on an issue-by-issue basis and that not all types of companies will be eligible for all exceptions or modifications.

Another Board member questioned the value of the matrix if *yes* and *no* really mean *may* or *may not* be eligible.

A PCC member recommended that the staff add the word *consideration* to the top of the matrix to clarify that eligibility is not definitive for each type of entity covered by the matrix. Some Board members agreed with that recommendation and stated that it could mitigate the creation of

an expectation gap for constituents using the matrix to determine whether they are eligible. Another PCC member suggested that in the first paragraph, “*should be permitted*” should be changed to “*should be eligible for consideration*” to mirror what was recommended to be added to the matrix.

One PCC member disagreed and echoed concerns about the overall decision usefulness of the matrix. He thought it would add confusion to the decision process because entities are either included in the definition of a private company or they are not. Board members disagreed and commented that the definition of a private company is not as black and white as the PCC member suggested. Many times entities will be in or out for consideration, but not always.

Two Board members suggested that the matrix define public companies and explain that all other entities are eligible for exceptions or modifications. The scope of the issue is then determined for each exception and modification.

Pre-agenda Research Topics

Issue No. 1: Accounting for Identifiable Intangible Assets in a Business Combination

The staff presented the agenda paper on Issue 1 and asked PCC members whether they would like to add the project to their agenda for consideration of possible exceptions or modifications for private companies on the initial recognition of identifiable intangibles separate from goodwill.

A PCC user member recommended adding this issue to the agenda because, in his experience, intangibles and amortization are ignored when making lending decisions to private companies.

Another PCC member agreed with adding the issue to the agenda, but suggested that there should be a higher threshold for separating intangibles from goodwill, for example, a pattern, a history, or an ability to exchange in addition to the contractual rights currently considered in the separability criteria. The Council member added that users are concerned with cash flows, that intangibles generally do not contribute to cash flows, and that intangibles are also costly to value.

A PCC preparer member agreed that the benefits/relevance of identifying intangibles and goodwill in a business combination is not worth the cost, but he does not agree that every intangible should be subsumed into goodwill. Some intangibles, such as patents and trademarks, can generate cash flows. He agreed with the threshold suggestion for separating intangibles from goodwill and would like to see more staff research on that alternative. He added that there could be some follow-on questions regarding subsequent measurement of goodwill that should be addressed. He directed the staff to consider in-process research and development in its analysis of potential alternatives.

Another PCC member mentioned that there could be follow-on issues addressing bargain purchase transactions, transaction costs, and income taxes.

A PCC member agreed that this issue should be added to the agenda. He noted that there are situations in which intangibles should be separately valued, but, in general, preparers should be allowed to subsume them into goodwill. Therefore, the PCC should consider the effects of possibly amortizing goodwill.

Another PCC preparer member stated that he understands the theory behind business combination accounting guidance, but, in practice, allocating the fair value to identifiable intangibles does not add value for users. He suggested the PCC not pursue the subsequent accounting for goodwill as an alternative out of a concern for expediency.

A Board member appreciated the preparer's concerns about scope creep, but questioned the prudence of not addressing the higher likelihood that goodwill will be overstated and then subject to impairment as intangibles are aggregated into goodwill.

A PCC practitioner suggested that the follow-on issues be examined for the applicability of a practical expedient, such as amortization, that will approximate the same goodwill value over a certain number of years.

Two PCC user members agreed that users are interested in the composition of the excess purchase price even if it is disregarded when making lending decisions. When asked by a Board member whether a narrative disclosure of identified intangibles would be sufficient, both PCC user members agreed that it would be sufficient.

A Board member questioned whether this is only a private company issue or whether it equally applies to public companies. A PCC member suggested the staff perform research to uncover any reasons why a potential alternative could not be applicable to public companies. Another Board member pointed out that FAS 141R is substantially converged with IFRS and that adding a project to the agenda could potentially diverge the two standards.

The PCC Chairman asked whether any Council members objected to adding to the agenda the initial recognition of identifiable intangible assets issue as well as the follow-on issue of subsequent accounting for goodwill. No PCC members objected.

Issue 2: Private Company Accounting for Variable Interest Entities

The staff presented the agenda paper on Issue 2 and asked the PCC whether they wished to add the project to the agenda to address Variable Interest Entity (VIE) guidance for private companies.

A PCC preparer member believed that the issue should be added to the agenda and directed the staff to incorporate examples of explicit as well as implicit guarantees. Another PCC preparer member seconded the request.

A third PCC preparer member also wanted to add the issue to the agenda due to the angst it causes private companies as well as the costs associated with VIEs. In related party leasing arrangements, it is common that a leasing company is consolidated based on VIE guidance. A PCC practitioner suggested that the primary users of private company financial statements, lenders, find consolidation of a leasing company to provide irrelevant information because lenders generally focus on the cash flows and tangible net worth of their borrower's legal entity, as opposed to their borrower's reporting entity for U.S. GAAP purposes. Lenders generally do not request consolidated financial statements because they desire to evaluate the individual performance of the borrowing entity. Consequently, if a lender receives consolidated financial statements, they usually request a "consolidating" schedule or permit the reporting entity to take a GAAP exception.

A PCC practitioner member thought the Council should focus first on Alternative 2² in the agenda paper by exploring ways to make the related-party tiebreaker more operable and minimize diversity in practice. Several PCC members expressed concern regarding the scope of Alternative 3³. They thought that attempting to simplify the entire VIE model may be too large of a project and would prohibit the Council from acting expeditiously.

A Board member suggested another alternative might be to focus on the purpose and design of the entity. If the purpose and design were clarified in the VIE model, one might conclude that the reporting entity in a related party leasing arrangement does not have a variable interest in the leasing company. Many private company constituents stated that the purpose and design of the leasing company is to facilitate tax and estate planning. If that were the case, the reporting entity would never have to apply the related party tie-breaker.

A PCC member asked whether a post-implementation review had been performed on FAS 167, and, if not, why the standard hadn't been chosen. A Board member did not get into the specifics of the criteria, but suggested that it was because the standard had not been in effect long enough to be eligible for a review.

The PCC Chairman asked whether any Council members objected to adding to the agenda the consolidation of variable interest entities issue, specifically when applied to related-party arrangements. No PCC members objected.

Issue 3: Accounting for Receive Variable-Pay Fixed Interest Rate Swaps

The staff presented the agenda paper on Issue 3 and asked PCC members whether they would like to add a project to the agenda to consider potential improvements for private companies on accounting for receive-variable, pay-fixed interest rate swaps.

A PCC member pointed out that a large liability associated with the swap is a “doomsday” liability because an entity would not terminate the swap if it was in a large liability position; instead, it would hold the swap to maturity. Presenting in the balance sheet a large swap liability due to changes in interest rates is, therefore, irrelevant. He does not see the amortized cost alternative as an off-balance sheet issue because the fair value of the swap is not relevant. The staff pointed out that a disadvantage of the amortized cost alternative⁴ is that sometimes the swap can be in a gain position and entities may find it more economically advantageous to terminate the swap.

A PCC member said that he was inclined to side with the amortized cost alternative with disclosures but directed the staff to research subsequent accounting in the event the entity terminates the swap.

² Alternative 2 (Related Party Tie Breaker)—Provide clarification on how to apply the related party tie breaker test through a related party leasing example that would provide guidance as to when the owner can be considered as the primary beneficiary.

³ Alternative 3 (Simplify the entire VIE Model)—Simplify the entire VIE consolidation model within Subtopic 810-10 for private companies.

⁴ Alternative A: Account for the interest rate swap using amortized cost, disclosing key terms, and, in certain circumstances, disclosing the fair value of the interest rate swap.

Another PCC member who wanted to add the issue to the agenda asked the staff to determine whether entities struggle with the balance sheet recognition or the income statement volatility so that the Council can be sure to solve the correct problem.

One PCC member struggled with the fact that an instrument that is fixed-rate debt with a prepayment penalty is accounted for differently than the same economic position that is variable-rate debt with an interest rate swap. He expressed concern that if the Council pursues a narrow scope for amortized cost accounting that a variety of criteria will be developed into a method akin to the current shortcut method and few private companies will be helped by the exception based on amortized cost accounting for the swaps.

A PCC user performed outreach within his organization and found that his colleagues do not consider the fair value of the swap to be relevant. They do not find the current reporting to be useful because they operate under the assumption that the swap will be held to maturity. Based on the staff's questions, the user clarified that his colleagues did not find the current reporting useful when their organization was the only counterparty, but that in a multiple counterparty situation, lenders are interested in the fair value of the swap.

A PCC preparer added that the current income statement volatility caused by these simple swaps is not true to the economics of the transaction as intended by management. He sees this as a scope issue and echoed concerns that too narrow of a scope would not help many constituents, but also that a broad scope could result in unintended consequences.

The staff asked for clarification regarding the types of scopes the Council wishes the staff to pursue, such as a narrow scoped amortized cost alternative compared to a simplified hedge accounting alternative.⁵ A PCC practitioner member said he was unsure whether hedge accounting is of tremendous interest to private companies.

Another PCC user wanted to add the issue to the agenda and agreed with prior comments that the staff should perform outreach to determine what problems constituents are facing. He suggested the Council consider the importance of intent when evaluating potential alternatives.

Another PCC member was interested in the GASB 53 simplified hedging model as a potential alternative.

A Board member noted that the issue seems to be about in-substance fixed-rate debt and echoed concerns that the Council should first determine what the real problem is. Another Board member agreed and added that if private companies are facing difficulty qualifying for hedge accounting, why should the alternative be limited to cash flow hedges of pay-fixed, receive-variable interest rate swaps?

A PCC member added that many times, private companies are unaware of all of the provisions in the swap contract, such as market disruption clauses. The perception is that the entity is paying a fixed rate but that it may not comport with reality in all cases.

The PCC members then discussed the average terms for simple interest rate swaps. One PCC user said that it is not unusual to have a long-term swap of five years, but, generally, they are

⁵ Alternative B: Simplify hedge accounting.

shorter-term. Another PCC user typically sees five to six year variable-rate debt provided by multi-lender groups that require the borrower to enter into a swap to fix their interest for a three year period. He noted that fewer swaps are being required today due to the low interest rate environment.

A PCC preparer was not interested in simplifying hedge accounting as a project for the PCC, but thought that the Council should focus on the in-substance fixed-rate debt issue, as he believes private companies are most bothered by the income statement volatility.

The staff clarified the scope of the agenda paper by reiterating that Category 1 includes interest rate swaps in which the lender is the counterparty to the swap. The staff stated that Category 2 consists of interest rate swaps for which the lender is not the counterparty.

A PCC preparer said that it might be beneficial to address Category 1 first as it is a clearer issue and learn from the research conducted by the staff, then address Category 2 swaps. Doing so may help with speed and clarity, and would serve to limit confusion among the two issues. The group then discussed the possibility of adding to the agenda the narrower-scoped Category 1 swaps that are in-substance fixed-rate debt, while continuing pre-agenda research on Category 2 swaps.

The PCC Chairman asked whether any Council members objected to adding to the agenda the issue on the accounting for receive variable-pay fixed interest rate swaps in which the lender is the counterparty to the swap (Category 1 swaps). No PCC members objected. The Council also directed the staff to continue research on interest rate swaps for which the lender is not the counterparty (Category 2 swaps).

Issue 4: Uncertain Tax Positions (FIN 48)

The staff presented the agenda paper on Issue 4 and asked PCC members whether they would like to add the project to the agenda. The staff noted that the Board has addressed many of the private company issues with FIN 48 and issued four updates to the standard since its issuance to address those issues. The staff noted that it performed some limited outreach and did not identify any additional issues specific to private companies. The staff has not received technical inquiries on FIN 48 on any issues specific to private companies since the issuance of those updates. As a result, the staff has struggled to identify any feasible alternatives to FIN 48 that might reduce the costs of accounting for uncertain tax positions, while providing decision-useful information to users of financial statements.

A PCC preparer commented that issues surrounding FIN 48 specific to private companies have largely been addressed and that the PCC should not spend a substantial amount of time trying to identify any additional issues. This Council member questioned what he perceives to be are inconsistent thresholds for accounting for uncertain tax positions and other contingencies. He noted concerns about having multiple thresholds for reporting assets and liabilities on the balance sheet and questioned whether users of private company financial statements understand those threshold differences.

A PCC practitioner member agreed that the PCC should not add the project to its agenda. She added that the implementation of FIN 48 was time-consuming and costly for both public and nonpublic companies. After private companies performed the initial exercise of putting the liabilities on the balance sheet they became more comfortable with the Interpretation. She added

that since completion of the implementation of FIN 48, the ongoing accounting has not been costly to apply.

Another PCC member pointed out that the Blue Ribbon Panel heard a lot of concerns from private company constituents at the same time many private entities were implementing FIN 48. Now that some of those rigors are behind private company preparers, there have been few concerns from private company constituents.

Another PCC preparer member acknowledged that the application of FIN 48 continues to be complex, particularly because the tax law is complex. However, he stated that he sees no basis for not recognizing tax liabilities that could be relevant to users. He concluded that while the application is difficult, he does not think the accounting should change for private entities.

Another PCC practitioner echoed the previously stated comments of other Council members. He agreed that he does not see any contemporary issues that warrant the attention of the PCC. He directed the staff to ascertain whether significant issues exist through some form of outreach with private company stakeholders. He does not believe that FIN 48 should be added to the PCC's agenda.

Another PCC preparer member said that he had asked the SBAC at their last meeting whether they could provide specific reasons for why private companies should be allowed an exception from or a modification to FIN 48 and whether they had any suggestions to improve the Interpretation. The members of SBAC did not have any recommendations and did not identify specific issues with the accounting approach under FIN 48.

A Council member asked the staff and the Board whether there was a process to gather outreach on current concerns about FIN 48 if the PCC decided not to add the issue to the agenda at this time. The staff explained that the FASB monitors a technical inquiry process under which constituents can submit application questions to staff. The staff noted that there have not been many technical inquiries concerning FIN 48 recently. The staff also asks advisory groups periodically about current issues. A Board member added that the PCC could add a project page to its webpage that lists projects that have been added and projects about which the PCC is requesting additional input. Constituents would then be able to contact the staff about the PCC's pre-agenda and current agenda.

The PCC Chairman asked the PCC if anyone objected to not adding the uncertain tax position issue to the agenda at this time. No PCC members objected.

Other Possible Look-back Projects

The Council Chairman stated that an objective of the PCC is to continue to identify pre-agenda research items for the staff to bring back to the PCC. The PCC Chairman then listed the following potential look-back items that have been brought to his attention: other comprehensive income (OCI), stock-based compensation, disclosures, fair value measurement and disclosures, Level 3 fair value measurement and disclosures for nonfinancial assets, pensions and pension disclosures, asset retirement obligations, liability versus equity versus mezzanine, development stage enterprises, general measurement, and threshold issues.

One Council member suggested adding more discrete topics that can be completed in a reasonable amount of time rather than high-level, conceptual topics like liability versus equity that may not be in the PCC's purview. Another Council member agreed, but stated that discussing a few of these broad areas might be helpful to the PCC.

One PCC member stated that he would like to consider stock compensation because he has heard concerns from the private company community on the complexities of the issue. He also agrees that the PCC should address discrete projects that are beneficial to a number of people. However, he stated that the PCC should at some point add projects with a longer duration to attempt to solve underlying issues.

Another PCC member agreed that the staff should compose an agenda paper on stock compensation. He outlined a scenario in which a company's value is expected to rise but instead falls and the result is expensing the stock that doesn't actually have any value. When asked about how to value private company stock, his answer was that the company would have to incur additional costs hiring a third-party consultant. He added that as more stock-based compensation is awarded, the company would be required to obtain a valuation more frequently.

A PCC member also agreed that the stock compensation issue was worthy of pre-agenda research. He directed the staff to not only look at measurement, but also accounting for modification and settlements. He acknowledged it could lead to liability and equity issues, but that it was narrower than a broader project on liability versus equity.

The PCC Chairman asked PCC members whether any of them objected to adding stock-based compensation to the pre-agenda research. No PCC members objected.

The PCC Chairman asked the Council members whether they thought there were remaining issues with Level 3 fair value for nonfinancial assets. A Board member observed that the framework was set up to determine when there is a differential in relevance and cost between private and public companies that might cause the Council and Board to allow a modification or exception for private companies. The list that was mentioned earlier includes issues that are mentioned broadly by both public and private companies and will have to go through due process on the FASB's agenda. He stated that he is not hearing differential issues that cause some issues to fall into the pre-agenda category, but, rather, he was hearing areas of problematic accounting.

One Council member responded by saying the PCC found there to be no differences for public and private companies concerning FIN 48. Another Council member added that there are clearly differences in cost and relevance surrounding the stock compensation issue for public and private companies. The stock is easier to value in a public company and differences exist with regard to settlement dates between public and private companies. The Board member agreed that differences between public and private companies regarding stock compensation exist but that the discussion about some of the other issues were failing to highlight the differences between public and private companies. PCC members agreed that part of their process was to determine the differential needs of users between public and private companies.

A Board member asked for clarification from the PCC regarding settlement dates within the stock compensation topic. Specifically, he asked whether the PCC was concerned with the terms

of the put and call back to the company or whether they were more concerned with renegotiating the deal and paying cash when there was no obligation to pay cash. A PCC member responded that the latter is more concerning in some cases and that the net settlement provisions are in others. He added that sometimes the provisions are not in the agreements and that cash settlement provisions can be challenging as well. The Board member agreed that measurement is more difficult for private companies and that there will be more puts and calls contingent on change in control, retirement, or death of the holder. Another Board member added that adding an input to the Black-Scholes model to measure the volatility of the stock price would be more difficult for private companies to determine.

On the topic of the potential pre-agenda research paper on Level 3 fair value of nonfinancial assets, a Board member pointed out that a company would only provide the values if there was recurring measurement. Another Board member added that many of the issues will be solved after the PCC completes the intangibles agenda item.

A PCC member commented that the better framing for potential pre-agenda research items might be to look to see whether there is anything else that requires the PCC's attention. He questioned whether there was anything left for the PCC to consider in the Level 3 fair value measurement bucket other than interest rate swaps and intangibles, both of which the PCC is already addressing.

The staff mentioned another possible pre-agenda research issue could be the fair value of pension asset hierarchy disclosures. However, the FASB has a research project on pensions and other post-retirement benefits that may address the issue. A PCC member answered that pensions may not be as large of an issue for private companies and that the PCC should focus on issues that affect a larger population of private companies.

The PCC Chairman asked whether any of the PCC members thought a broad project on liability versus equity should be considered for pre-agenda research. A Board member stated that the FASB heard some concerns from private company constituents when the FASB exposed the liability versus equity document, but that the concern arose because the Board would have changed the accounting from what it currently is today and there are not many issues with the current accounting. He agreed that the terms of equity instruments and residual of equity instruments tend to vary in private companies, but cautioned the PCC on such a large undertaking. A PCC member agreed that the PCC should focus on more discrete issues.

One PCC practitioner member questioned the need for private development stage enterprises to present cumulative information on the balance sheet. He added that investors are well aware of a company's prospects and could ask for more information if they required it. He acknowledged that the issue doesn't affect many private companies but those that it does affect, it affects significantly. Another PCC member commented that the topic arose at an SBAC meeting and that the Committee thought it was an issue.

A Board member commented that the PCC may land on some liability versus equity issues when the PCC addresses the issue of stock compensation. This Board member recalled a series of issues having to do with the characteristics of the awards that allow transfer of ownership within the family that sometimes require a cash settlement.

A PCC member commented that the liability versus equity topic is not discrete, but an important topic nonetheless. He emphasized the need for the PCC to take on projects that are less discrete and that have a longer duration.

The PCC Chairman asked PCC members whether they would like the staff to prepare a pre-agenda research paper on development stage enterprises. Other members agreed and stated that the project would not be long, but that it also would not affect many private companies. They also directed the staff to perform outreach to see if the information presented is relevant to users. No PCC member objected to adding the project to pre-agenda research.

The staff asked PCC user members whether they thought information about asset retirement obligations was irrelevant. A PCC preparer explained that the company would create an asset and depreciate it over time to offset the liability of decommissioning that asset. A PCC user thought it would conceptually be relevant information. A PCC member asked whether there was a difference between public and private companies on this topic that might warrant an exception or modification. A PCC member thought that pensions would make more of an impact than asset retirement obligations.

Another Council member wanted the staff to research making OCI more explainable for private companies. When asked how OCI would differ for public versus private companies, the Council member answered that the purpose of public company financial statements is to give an investor the opportunity to arrive at a value whereas the purpose of private company financial statements is to tell the owner the company's position over a period of time.

Another PCC member commented that OCI has existed for a long time and the reason for the disapproval of OCI by private companies stems from the fact that it cannot be well defined. He suggested clarifying the boundaries of OCI to reach a consensus on what is appropriate to be included in OCI. A Board member agreed the issue was important but that it was outside the purview of the PCC as the issue relates to both public and private companies.

A PCC user stated that he understood that OCI contains nonrecurring items and that he would like those items to be broken out. He also stated that private company lenders are more concerned with what will happen to the company in the next 12 months, not necessarily the next 20 years. A PCC preparer added that comparability between net income and cash flows has been diminished because of the inconsistency with which items are placed into OCI.

A Board member agreed OCI is a very large issue but wanted to hear the differences between public and private companies on the issue. The PCC Chairman did not believe the discussion would lead to a broad project on OCI being added to pre-agenda research.

FASB Current Technical Agenda

Revenue Recognition

A PCC member outlined the position of the PCC on the transition method for the new revenue recognition standard. The general consensus of the PCC is for a modified retrospective transition method in which a disclosure would be provided that includes the current year under the previous revenue recognition standard and the face of the financial statements would reflect the new standard. The cumulative effect of applying the revenue standard would be reported as an

adjustment to the opening balance of retained earnings in the year of initial application. The PCC thought this method would result in comparability and is a good compromise to avoid the cost of restating prior years while still providing relevant information to facilitate trend analysis by users.

A Board member asked the PCC if the FASB decided to implement the modified retrospective approach, whether some private companies might elect to apply a full retrospective method. Several PCC members stated they would not expect private companies to apply a full retrospective method unless required to do so. The Board member stated that if the PCC did not expect private companies to elect full retrospective accounting, reflecting the cumulative effect of applying the revenue standard as an adjustment to the opening balance of retained earnings in the year of initial application could result in a cost-beneficial transition method for private companies.

A PCC member stated that full prospective transition could potentially fail to provide comparability within the same period because contracts within the same year could be reported on a different basis. For long-term contracts, this non-comparability could go on for a number of years. Another Council member added that there was a discussion around the ability to recycle revenue or to not recognize revenue in the prior or current year as being an issue if private companies present only one year in their financial statements. A PCC member suggested that the Board require private companies to provide two years of comparative financial statements.

Going Concern

A PCC member outlined the position of the PCC regarding the decision of the FASB in the going concern project related to private companies. The PCC supports the proposal to exempt private companies from the substantial doubt valuation threshold.

A Board member asked whether the PCC would still be supportive if the Auditing Standards Board doesn't agree with the change. A PCC member responded that private companies would probably accept a qualified opinion, because forcing management to disclose substantial doubt and also a two-year look-forward would create issues between the auditors and management.

A PCC member commented that the reason the going concern guidance was in the audit standards was because it didn't exist in the accounting literature and that consistent terminology between the auditing standards and the accounting literature is helpful.

The staff explained to the PCC that the look-forward for private companies would be a minimum of one year from the balance sheet date. The staff took into consideration the concerns voiced by the PCC that predicting beyond one year, especially for the substantial doubt assertion, would be problematic. The staff noted that the SBAC voiced similar concerns.

The staff also mentioned that it has coordinated with the PCAOB on the application of the standard.

A PCC user member stated that as long as disclosures are provided, the users would make the determinations themselves about whether they are going to continue to provide credit and whether the company is a going concern. A PCC preparer thought that management should state

what it plans to do to fix the situation. The PCC user stated that management usually does comment in the footnotes if it plans to raise capital or cut overhead.

The staff asked the PCC user member if the company ends up going under in that year, whether a user would be comfortable with the fact that they haven't disclosed anything or the auditor hadn't red-flagged anything. The PCC user responded that he would be comfortable because he would be able to seek legal action against the auditor.

EITF Issue 12-F - Pushdown Accounting

A PCC member outlined the discussion the PCC had on the EITF Issue on pushdown accounting and its implications for private companies. The PCC also acknowledged that this EITF Issue is one that the PCC is particularly interested in and that it would want to be involved in its discussion and deliberation. He stated that this is a major issue for private companies, particularly with respect to the entities that receive funding from private equity and venture capital, and situations that give rise to whether purchase accounting should be applied in standalone financial statements of subsidiaries. Currently, there is no guidance in U.S. GAAP on this Issue and, as a result, the decision to push down the new basis of accounting resides solely with the chief decision maker of a nonpublic entity.

One PCC member voiced support for guidance to standardize the application of pushdown accounting and supported a high threshold of change in ownership before pushdown accounting is applied. Another Council member noted that the feedback from users on the value of pushdown accounting was mixed. He added that there were a number of open issues to be addressed by the EITF.

A Board member stated that pushdown for private companies is basically a policy election now and that it was important to determine why companies choose to elect the policy to push down the new accounting basis. A PCC member replied that the only reason he could think of for such an election was that pushdown accounting makes consolidation easier. A Board member added that making consolidation easier is a cost issue, not a relevance issue.

A PCC member commented that if there is a venture and change in control has occurred, and, thus, a new party now owns the venture, there is a case to be made that the appropriate ownership measurement of that company is a new basis.

A PCC preparer member commented that he has heard from the user community, especially lenders, that when a company steps up the basis of property, plant, and equipment and there is a subsequent increase in depreciation, the information does not make a difference to those users because they are concentrating on what affects EBITDA. Tangible net worth excludes goodwill and intangibles.

A PCC user member commented that all the transactions that his company sees are typically from a private owner to a private equity group or from private equity group to another private equity group. Assets are always written up and that is to be expected. He recognizes the write up is to goodwill and that's not part of tangible net worth, but he would request to see written up tangible assets. He would expect to continue to write up the fixed assets and equipment and request appraisals of those assets. He stated that he does not want to see an entity his company owns with a significant amount of negative net worth. He added that he thinks this is also

important for banks as well as private equity groups. Banks understand that goodwill is an intangible and they do back it out, but he suspects there is most likely a standard saying the company needs to have positive net worth in most cases.

A PCC user member (lender) confirmed that his assumption is correct. The intangible information is interesting, but if the bank were going to lend on those assets, the bank would require appraisals. If the asset is real estate, regulators require the appraisal to be within the last 12 months.

A PCC user member also commented that when a company is sold from a private equity group to another private equity group and goodwill is generated, from a tax standpoint, there will be a deduction. Thus, the company will want to write-up the assets.

A Board member asked a PCC member how he determines when to apply pushdown accounting. The Board member asked whether the determination was made at a percentage of ownership level, based on the exit strategy, or based on the realization event. The PCC member responded it was most likely at some percentage of ownership level. He added that only if there is a significant change in ownership and there is goodwill that indicates the price paid is more than the current asset value should the tangible assets be written-up to the current market value.

One PCC member questioned whether pushdown accounting was an issue for private companies considering they now have the option to apply or not to apply pushdown accounting. One PCC member thought the optionality resulted in diversity and, thus, a lack of comparability.

One PCC member stated that there are a couple of other issues with pushdown accounting. The first is that there is no guidance outside the SEC about what constitutes a change in control. The second is with collaborative arrangements and changes in control without any one entity acquiring control. He concluded that if pushdown is to be required, additional guidance would be necessary.

One PCC member commented that this looks like a classic case of adding complexity and cost without adding truly additional relevance for private companies.

The majority of the PCC preferred pushdown accounting to remain optional. The staff will continue to update the PCC on the progress of the EITF Issue in the upcoming months.

Administrative Matters

The staff commented that as result of the discussion at this meeting, it has become apparent that there should be some means of input on the FASB website for private company constituents to provide feedback on future pre-agenda topics.

The Council decided not to formally participate in the EITF process but, instead, will appoint a liaison to monitor projects with implications for private companies. The staff commented that the person taking the place of Larry Weinstock as a member of the EITF since Mr. Weinstock became a member of the PCC also is a private company preparer who will be able to provide insight about private company concerns to the Task Force.

The Council Chairman announced the PCC meeting dates for the remainder of 2013 as follows: May 7, July 16, October 1, and November 12. All meetings in 2013 will be held at the FASB offices in Norwalk, Connecticut.

The Council Chairman concluded by requesting that the PCC members review the meeting minutes from the December 6, 2012 PCC meeting and communicate any concerns to the FASB staff.