



CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION
The Source & Resource for Construction Financial Excellence

October 26, 2012

Technical Director
File Reference No. 2012-230
FASB/PCC
401 Merritt 7
P.O. Box 5116
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Via e-mail

Re: Private Company Decision-Making Framework—A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies

Dear Financial Accounting Standards Board and Private Company Council:

The Construction Financial Management Association (CFMA) is “The Source & Resource for Construction Financial Professionals” and the only nonprofit organization dedicated to serving the construction financial professional. Headquartered in Princeton, NJ, CFMA currently has nearly 6,500 members in 89 chapters throughout the US and Canada.

Established in 1981, CFMA’s General Members represent all types of contractors, as well as developers, construction managers, architects, engineers, principals, and material and equipment suppliers. Associate Members include the accounting, insurance, surety, software, legal, and banking specialists who serve the construction industry.

CFMA is pleased to take the opportunity to provide comment to the Financial Accounting Standards Board (Board), as well as the Private Company Counsel (PCC), on the discussion paper, Private Company Decision-Making Framework—A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies.

The following represents our comments from the perspective of preparers, auditors, and users.

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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.

Answer: CFMA members represent financial statement preparers, financial statement users, and public accountants.

- 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.

Answer: A significant majority of CFMA members who are financial statement preparers represent privately held construction companies of all types and sizes, including general contractors, specialty subcontractors, construction managers, architects, engineers, and developers. The experience levels of these financial statement preparers range from the new construction financial manager to those with more than 35 years of experience.

- 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 both private companies and public companies.

Answer: CFMA members who are financial statement users represent lenders, including banks and finance companies, and insurance and bonding companies. CFMA members who are users of financial statements predominately use the financial statements of private 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.

Answer: CFMA members who are public accountants represent local, regional, national, and international public accounting firms. These firms have client bases of all sizes, representing a variety of industries.

Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If it has 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.

Answer: We believe that the staff has identified the appropriate differential factors between private companies and public companies in paragraphs DF1–DF13. Nonetheless, we feel that more emphasis should be placed on the differences outlined in paragraphs DF8–DF9, Ownership and Capital Structures, and paragraphs DF10–DF11, Accounting Resources.

We believe that differential factors related to ownership and capital structure should also highlight the sources of capital and their relationships to users. In addition to the type of entity (pass through, C-corporation, trust, etc.) and the nature and volume of related party transactions, the sources of capital for nonpublic companies is a key differential factor, as it comes from a limited group of individuals. As a consequence, the focus on cash flows of owners is more closely aligned with that of creditors and other users. Owners/stockholders of public companies generally are not a source of actual capital to an entity and their focus is more on valuation.

We believe that differential factors related to accounting resources should stress the limitation of resources available to nonpublic companies to implement various standards. We believe that whether the focus is on manpower resources required to read, interpret, and implement new complex standards or monetary resources required to hire experts in the fields of valuation, derivatives, or various technical accounting areas, the benefits of compliance often do not outweigh the cost of implementation.

Question 3: Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?

Answer: Overall, we believe that the staff recommendations would result in a framework that would lead to relevant, cost-effective decisions. Conversely, an overarching principle with which we do not agree is the concept that framework would provide exceptions or modifications to US GAAP for nonpublic companies, as opposed to establishing a baseline level of US GAAP to be applied by all companies with incremental guidance applicable to public companies. By establishing the framework as exceptions or modifications to US GAAP, a concern exists as to how the concept of exceptions to US GAAP will be interpreted and reported on by independent public accountants.

Another overarching principle with which we do not agree is the emphasis on user needs over other factors when determining whether exceptions or modifications to US GAAP should be permitted. One of the differential factors between nonpublic and public companies is access by users of nonpublic company financial statements to management, access that is generally not available to users of public company financial statements. This factor is the key differential between nonpublic and public companies and is explained by the concept of the *red-flag approach* to the review of financial statements described in paragraph BR43.

Question 4: Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?

Answer: We agree that both nonpublic and public companies that apply industry-specific accounting guidance generally should follow the same guidance because of the presumption that industry-specific guidance is relevant to users regardless of whether the entity is a nonpublic or public company.

Question 5: Do the different areas of the framework 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 BR43 and BR44)? If not, why?

Answer: We agree that the framework appropriately describes and considers the information needs of users of nonpublic company financial statements, including the access to management and the *red-flag approach* to reviewing financial statements. However, we believe that access by users of nonpublic company financial statements to management is not given enough emphasis based on the value it provides to users. Paragraph BR44 states that "...some information in the notes can be limited to basic information necessary to facilitate a user's review and to allow a user to identify appropriate follow-up questions to present to management."

Users of nonpublic company financial statements always have the option of either asking for additional information to supplement and clarify those financial statements or denying credit. This relationship should not be underestimated and US GAAP standards should not be a surrogate for prudent business practices that should be exercised by users of nonpublic company financial statements.

Question 6: Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?

Answer: In general, we feel that the staff has identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework. We do, however, provide the following comments and observations.

We believe that objective, over subjective, information leads to increased relevance of financial statements for nonpublic companies. Terms used in questions 1.5e. (*predictive value*), 1.5f. (*probable*), and 1.6l (*significant complexity*) may lead to inconsistent recognition and measurement principles and therefore compromise the relevance of the related information.

We disagree with the concept of placing more weight on the relevance of information to users as opposed to other factors, such as cost and/or complexity. We believe that this emphasis is in direct conflict with the core differential factor of access to management that users of nonpublic company financial statements generally have and the lack of access to management by users of public company financial statements.

We also disagree with the concept of providing exceptions or modifications to US GAAP for nonpublic companies. We believe that this concept unfairly characterizes the financial statements of nonpublic companies as not achieving the minimum level of US GAAP.

Question 7: Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?

Answer: In general, we feel that the staff has identified the appropriate areas of focus for the Board and the PCC to consider in the disclosure area of the framework. However, we provide the following comments and observations:

We disagree with the concept of placing more weight on the relevance of information to users as opposed to other factors, such as access to management and cost and/or complexity. We believe that this emphasis is in direct conflict with the core differential factor of access to management that users of nonpublic company financial statements generally have and the *red-flag approach* to review of financial statements described in paragraph BR43.

We also disagree with the concept of providing exceptions or modifications to US GAAP for nonpublic companies. We believe that this concept unfairly characterizes the financial statements of nonpublic companies as not achieving the minimum level of US GAAP.

We agree with the general disclosure exceptions/modifications described in paragraph 2.7 and also recommend that the following areas be added to this short list:

- Basic fair value measurement disclosures when the related instrument is expected to be held for purposes other than use in current operations, or when disclosures related to an instrument that is required to be measured at fair value on a recurring basis are not relevant to the operations of the reporting entity.

- Basic derivative instruments, such as an interest rate swap, that will be held to maturity.
- Elimination of certain disclosures in the financial statements of sponsors regarding defined benefit pension plans.
- Elimination of disclosures related to regulated subsidiaries (e.g.; captive insurance companies) that will otherwise be available in stand-alone format as required by the regulatory body.

Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?

Answer: We agree that nonpublic companies and public companies should apply the same display guidance, particularly in the case of industry-specific display concepts.

Question 9: Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred effective date, do you agree that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?

Answer: We agree that nonpublic companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance. We also believe that, to promote consistency among nonpublic companies, early adoption by nonpublic companies should not be permitted.

Question 10: Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?

Answer: We agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for nonpublic companies. We also believe that only rare circumstances should dictate any form of retrospective application to the financial statements since cash flow measurements are typically the most critical to users of nonpublic company financial statements. Disclosure in the notes to the financial statements of nonpublic companies typically provides sufficient additional information to users.

Question 11: Do you agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8–B23 in Appendix B)? If not, why?

Answer: We agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework.

Question 12: Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.

Answer: At this time, we have no recommendations on other types of entities the Board should specifically consider when determining which types of companies should be included in the scope of the framework.

Question 13: The staff acknowledges the importance of the decision to be reached by the Board and the PCC on whether to require a private company that elects to apply any difference in recognition or measurement guidance provided under the framework to apply all existing and future differences in recognition and measurement guidance. Below, the staff has included some initial observations raised by a limited number of stakeholders about this topic. The staff is seeking to obtain broader input to help inform the Board and the PCC as they further assess the implications of this decision.

Some users of private company financial statements stated that they prefer an *all or nothing* approach of applying recognition and measurement differences to achieve consistency within a private company's financial statements and promote comparability among the financial statements of private companies that choose to apply all exceptions and modifications provided under the framework. Those users indicated that such an approach would reduce the confusion that they may experience if private companies are allowed to select which differences they wish to apply. The users acknowledged that the extent of that confusion will depend on the number of recognition and measurement differences that are ultimately permitted and the nature of those differences. However, most of the users stated that they do not object to allowing private companies the option of applying some, none, or all of the permitted differences in disclosure, display, effective date, and transition method guidance.

Most preparers of private company financial statements acknowledged the concerns of some users, but stated that preparers should be allowed an option to select the differences provided under the framework that they wish to apply. Those preparers pointed to the possibility that not every permitted difference in recognition and measurement guidance may provide the most relevant information to users of their financial statements or for the companies operating in their industry. Some preparers also shared concerns about being required to make an initial commitment to apply all future differences permitted under the framework without knowing the nature or volume of the recognition and measurement differences that the Board and the PCC may ultimately provide.

- a. Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.
- b. Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13a.

Answer: As Questions 13a and 13b address similar concepts, we have answered them here together. We do not think a private company that elects to apply one difference in framework should be required to apply all existing and future differences under the framework. What we believe is that the private company decision-making framework should establish a base level of US GAAP to be applied by all companies since nonpublic companies represent the vast majority of all entities that prepare financial statements. Differences between the framework and what is necessary for public companies, whether due to the nature of the various differential factors identified in the framework or other factors, should be incremental to this base level of US GAAP.

Under such a model, the financial statements of all companies would have a base level of comparability.

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Incremental recognition, measurement, display, and disclosure guidance would be available for preparers of financial statements to adopt on a voluntary basis, at the request/mandate of a user of their financial statements, or due to regulatory or public company reporting requirements. However, we would recommend that the effective date and transition guidance be consistent among all nonpublic companies as previously stated in our response to Question 10.

In closing, we respect the Board's and the PCC's commitment to providing high-quality, operational financial reporting standards for financial statement preparers, auditors, and users. The due process afforded to those, such as CFMA, wishing to comment on standards affecting our constituency is an important and valuable part of this process. Again, we are grateful for your efforts and welcome the opportunity to meet with the FASB and/or the PCC to further discuss these concerns.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stuart Binstock", written over a horizontal line.

Stuart Binstock
CFMA
President & CEO