

## **FASB/PCC's Invitation to Comment, Private Company Decision-Making Framework—A Guide for Evaluating Financial Accounting and Reporting for Private Companies**

### *Background*

The purpose of this Invitation to Comment is to gather input from interested stakeholders about the appropriateness, completeness, and cost effectiveness of the guide. This guide reflects input received from a significant number of stakeholders representing diverse backgrounds about their experiences using, preparing, auditing, reviewing, and compiling private company financial statements and their perspectives about the factors that differentiate the financial reporting considerations of private companies and public companies.

The ultimate objective of this Invitation to Comment is to assist the Board and the PCC in developing a guide for the Board and the PCC to use in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under U.S. GAAP. The assessment of significant differential factors between private companies and public companies that underlies this Invitation to Comment is considered to be an important source of input to the development of this guide

This guide is not intended to be an entirely new conceptual framework that would lead to a basis for preparing financial statements of private companies that is fundamentally different from the basis for preparing financial statements of public companies. Rather, this guide would augment the existing conceptual framework for financial reporting to provide additional considerations in making user-relevance and cost-benefit evaluations under the existing conceptual framework for private companies. The guide is intended to be a tool to help the Board and the PCC identify differential information needs between users of public company financial statements and users of private company financial statements and to identify opportunities to reduce the complexity and costs of preparing financial statements in accordance with U.S. GAAP

### *CFMA's Response*

Our response is reflective of positions represented within CFMA and includes the following key points and recommendations:

- We believe that the appropriate differential factors between private company and public company financial reporting have been identified.
- We believe that the framework would lead to relevant, cost-effective decisions.
- Private and public companies that apply industry-specific accounting guidance generally should follow the same guidance, as the presumption is that industry-specific guidance is relevant to users regardless of whether the entity is a private or public company.

- The access to management users of private company financial statements have is not given enough emphasis based on the value it provides to users.
- We believe that the benefits of compliance should generally outweigh the cost and complexity of compliance. However, private and public companies that apply industry-specific accounting guidance generally should follow the same guidance, as the presumption is that industry-specific guidance is relevant to users regardless of whether the entity is a private or public company. Conversely, the recognition, measurement, and disclosure requirements of certain fair value measurements and derivative instruments that are not industry-specific to the construction industry provide opportunities to lessen the cost and complexity of compliance within the financial statements of private and public companies that are reasonable and relevant to prepares and users.
- In general, we agree that a private company should be eligible to select the alternatives within the recognition and measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within the recognition and measurement guidance. In general, we also agree that, in certain circumstances, the Board and PCC may, or should, link eligibility for application of alternatives within recognition or measurement in one area to the application in another area. However, the eligibility to apply select alternatives within the recognition and measurement guidance should not be available for industry-specific guidance. The circumstances that the Board and PCC would consider when linking eligibility for application of alternatives within recognition or measurement in one area to the application in another area must involve a causal relationship, or otherwise have a direct effect on each other in terms of recognition or measurement.



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

June 19, 2013

Technical Director  
File Reference No. 2013-250  
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401 Merritt 7  
P.O. Box 5116  
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Via e-mail

Re: Private Company Decision-Making Framework—A Guide for Evaluating Financial Accounting and Reporting 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 88 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 comments to the Financial Accounting Standards Board (Board), as well as the Private Company Council (PCC), on the discussion paper, Private Company Decision-Making Framework—A Guide for Evaluating Financial Accounting and Reporting 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:** Do you agree that this guide is based 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.

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 private 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.

**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 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 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 private and public companies is access by users of private 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 private and public companies and is explained by the concept of the *red-flag approach* to the review of financial statements described in paragraphs 2.5, BC45 and BC46.

**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?

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

- b. Do you think factors other than user relevance, such as cost and complexity, should be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance?
- c. Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?

**Answer:** We believe that the benefits of compliance should generally outweigh the cost and complexity of compliance. However, private and public companies that apply industry-specific accounting guidance generally should follow the same guidance, as the presumption is that industry-specific guidance is relevant to users regardless of whether the entity is a private or public company. For example, the percentage of completion method of accounting for construction- and production-type contracts that is generally accepted for preparers and users in the construction industry cannot be based on alternative recognition, measurement, and disclosure requirements for private and public companies and still arrive at similar economic depictions of financial results, whether those differences are based on cost or complexity. Conversely, the recognition, measurement, and disclosure requirements of certain fair value measurements and derivative instruments that are not industry-specific to the construction industry provide opportunities to lessen the cost and complexity of compliance within the financial statements of private and public companies that are reasonable and relevant to preparers and users.

**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?

**Answer:** We agree that the guide appropriately describes and considers the information needs of users of private 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 private company financial statements to management is not given enough emphasis based on the value it provides to users. Paragraph BC45 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 when the user deems it necessary to do so."

For example, creditors who use private company financial statements for purposes of evaluating creditworthiness always have the option of either asking for additional information to supplement and clarify those financial statements or denying credit.

The relationship between users of private company financial statements and management should not be underestimated and US GAAP standards should not be a surrogate for prudent business practices that should be exercised by users of private company financial statements.

**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 the 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?

**Answer:** In general, we feel that the questions above from paragraph 1.5 are the appropriate questions for the Board and the PCC to consider alternatives for private companies within the recognition and measurement guidance. We do, however, provide the following additional comments and observations.

We believe that objective, over subjective, information leads to increased relevance of financial statements for private companies. Terms such as *probable*, *typically*, *significant*, and *significantly* as used in paragraphs 1.5 and 1.6 may lead to inconsistent recognition and measurement principles and therefore compromise the relevance of the related information.

We disagree with the concept described in paragraph 1.7 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 private company financial statements generally have and the lack of access to management by users of public company financial statements.

**Question 7:** Do you agree that a private company generally should be eligible to select the alternatives within recognition and measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement? Do you agree that, in certain circumstances, the Board and PCC may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? If not, why?

**Answer:** In general, we agree that a private company should be eligible to select the alternatives within the recognition and measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within the recognition and measurement guidance. In general, we also agree that, in certain circumstances, the Board and PCC may, or should, link eligibility for application of alternatives within recognition or measurement in one area to the application in another area. However, we also provide the following additional comments and observations:

Technical Director  
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The eligibility to apply select alternatives within the recognition and measurement guidance should not be available for industry-specific guidance for reasons discussed in our response to Question 4. The circumstances that the Board and PCC would consider when linking eligibility for application of alternatives within recognition or measurement in one area to the application in another area must involve a causal relationship, or otherwise have a direct effect on each other in terms of recognition or measurement.

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