

By Russell G. Golden and Daryl E. Buck, CPA

The FASB and the PCC: Working Together

By working together, the FASB and the PCC are addressing accounting and financial reporting issues that affect not only private companies but public companies as well.

When the Private Company Council (PCC) was established in May 2012, the board of trustees of the Financial Accounting Foundation (FAF) envisioned that the PCC would work with the Financial Accounting Standards Board (FASB) to pursue two important goals. First, the PCC would determine whether alternatives within U.S. Generally Accepted Accounting Principles (GAAP) are required to address the needs of users of private company financial statements. Second, the PCC would advise the FASB on the appropriate treatment for private companies for items under active consideration as FASB projects.

Eighteen months into the new process, the PCC and the FASB are making significant progress toward both goals. In addition, the process has resulted in the identification of issues that could lead to improved standards for all companies, both private and public.

Tackling Issues

In the six meetings it has held so far, the PCC has taken action on



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four issues that users, preparers, and auditors of private company financial statements have identified as priorities:

1. Accounting for identifiable intangible assets acquired in business combinations,
2. Accounting for goodwill,
3. Applying variable interest entity guidance to common control leasing arrangements, and
4. Accounting for certain receive-variable pay-fixed interest rate swaps.

The PCC has finalized alternatives within GAAP to account for interest rate swaps and, separately, for goodwill. The FASB endorsed both alternatives and issued them as final Accounting Standards Updates in January 2014.

The FASB has also responded to the PCC's work by taking subsequent steps to consider ways in which the issues brought forth by

private company stakeholders are applicable to public companies. For example, when the PCC issued a proposal for public comment on goodwill, it received input from stakeholders from many types of organizations, not just private companies. Stakeholders indicated that the current account-

ing for goodwill impairment provides limited benefits to users because users often disregard goodwill and goodwill impairment losses in their analysis of organizations' financial condition and operating performance. Preparers and public accountants also told the PCC that they are concerned with the cost and complexity of the current goodwill impairment test.

Based on this input and discussions at the PCC meetings, the FASB decided to add a project to its agenda to consider whether the changes to accounting for goodwill also should apply to public companies and not-for-profit organizations. That project is still in the information gathering phase, which involves research by the staff as well as outreach to various constituents.

For another example, acting on the PCC's recommendation, the



FASB added to its technical agenda a narrow-scope project to address the concerns of both private company stakeholders and public company stakeholders on financial reporting complexity for companies in the development stage.

This project is intended to improve financial reporting by reducing the cost and complexity associated with certain incremental reporting requirements for these companies. The project isn't restricted to private companies—it focuses on all companies for which planned principal operations haven't commenced yet or for which planned principal operations have commenced but there has been no significant revenue from operations.

Both private and public companies in the development stage currently are required to report inception-to-date information that can be costly to provide. Outreach to those who routinely use the financial statements of development-stage companies indicated that, for most, the additional required inception-to-date information and disclosures related to these companies weren't useful or relevant.

Based on the input received from investors and other financial statement users, the FASB proposed eliminating all incremental reporting requirements for companies in the development stage. The intention is to reduce the costs and simplify the financial reporting without reducing the information relevant to financial statement users.

The primary takeaway from both of these examples is that the

FASB is focused on identifying how GAAP can be improved, simplified, and made more relevant for all companies and organizations. When working with the PCC, the Board may endorse some alternatives for private companies. But in other cases, the Board will look to incorporate improvements more broadly for all organizations.

Private Company Decision-Making Framework

The FASB and the PCC created a new tool to help with the work they are doing. In December 2013, they jointly issued the “Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies,” also known as the Guide. It is intended to assist the FASB in determining whether and when to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for reporting under GAAP for organizations that are within the scope of the Guide.

The Guide will help the FASB and the PCC identify differential informational needs of 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 GAAP. It also will help improve the relevance of those statements to users.

Further Improvements to Company Accounting

The PCC also is helping the FASB consider the needs of private

company stakeholders pertaining to the Board's ongoing projects that affect all companies reporting under GAAP.

Thus far, the PCC has provided feedback on the FASB projects on revenue recognition, leases, accounting for financial instruments, going concern, disclosure framework, definition of a public business entity, government assistance, and reporting discontinued operations.

In another important development, the FASB and the PCC are jointly hosting a series of town hall meetings across the country to discuss private company accounting issues related to current and future FASB projects. The first of those meetings was held on November 4, 2013, at Ohio State University and will be followed by a meeting in Seattle, Wash., in May 2014.

In summary, we believe that the FASB and the PCC are making important strides in their efforts to improve financial reporting for all companies, both private and public. **SF**

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