MINUTES OF THE JUNE 24 & 25, 2019 PRIVATE COMPANY COUNCIL MEETING

Location:	FASB Offices 401 Merritt 7 Norwalk, Connecticut
Meeting Date(s):	Monday, June 24, 2019 Tuesday, June 25, 2019
Starting Times:	June 24, 2019, 3:25 p.m./June 25, 2019, 8:30 a.m.
Concluding Times:	June 24, 2019, 5:15 p.m./June 25, 2019, 12:30 p.m.

PCC Members Present:

Candace Wright (Chair)
Timothy Curt
Jeremy Dillard
David Hirsch
David Lomax
Michael Minnis
Richard Reisig
Dev Strischek
Frank Tarallo
Beth van Bladel
Yan Zhang

FASB Board Members Present:

Russell Golden (Chairman)
*James Kroeker (Vice Chairman)
Christine Botosan
Marsha Hunt
Hal Schroeder
Gary Buesser
Susan Cosper (FASB – PCC Liaison)

FASB Board Members Absent:

None

FASB Staff Present:

Shayne Kuhaneck	*Julie Um	*Danielle Fontaine
Jeffrey Mechanick	* Joy Sy	*Bobbi Gwinn
Richard Cole	*Alex Casas	*Tyler Padgett
Darien Williams	*James Starkey	*Jane Lazzara
Rebecca Harris	*Jay Shah	*Doug Jepsen
*Alicia Posta	*Chris Cryderman	*Alexia Jentgen
*Chris Roberge	*Jenifer Wyss	*Emma Lazar
*Jason Bond	*Mary Mazzella	

*For certain issues only.

Introductory Remarks

The PCC chair welcomed PCC members, FASB members, and FASB staff to the PCC's June meeting.

Town Hall and Other Meetings Update

The FASB staff provided an update on the PCC Town Hall held on June 11 at the AICPA ENGAGE 2019 conference in Las Vegas, and noted that a survey was conducted that asked participants, primarily practitioners, several questions regarding the potential PCC practical expedient on share-based compensation and the implementation of the FASB revenue recognition and leases standards. In addition, there was the usual open discussion of emerging private company issues, during which participants did not identify any substantive new issues for the PCC's or the FASB's consideration.

Upon hearing the survey results for the share-based compensation questions, the FASB chairman asked PCC members how they interpreted those results as they relate to the potential practical expedient. Several PCC members believed that the results indicated that the practical expedient would be useful but noted that it is likely that additional guidance will eventually be required for share-based compensation other than traditional share option awards, such as profits interest awards.

The staff also discussed the survey results related to implementation of the revenue recognition standard and noted that more than half of the survey respondents indicated that their clients have not begun implementation. PCC members suggested that part of the reason for the delay may be due to public companies asserting that implementation of the standard did not have a material effect, which has led private companies to believe that they can wait longer to begin implementation. The staff then shared the survey results related to leases implementation and noted that most respondents believe that it is unlikely that the majority of their private company clients would be able to implement the standard by the effective date.

The PCC discussed four upcoming outreach meetings:

1. On August 13, certain members of the PCC, FASB, and FASB staff will be participating in a panel on private company reporting at the annual meeting of the American Accounting Association (AAA) in San Francisco
2. On August 13 (after the AAA panel), certain members of the PCC, FASB, and FASB staff will participate in a roundtable with the National Venture Capital Association (NVCA) in San Francisco.
3. Members of the PCC, FASB, and FASB staff will be participating in a PCC Town Hall at the California Society of CPA's Accounting & Auditing Conference in the Los Angeles area on October 24 or 25.
4. Following a highly successful Private Company Roundtable in October 2018, the Risk Management Association (RMA) expressed interest in setting up another roundtable with members of the PCC, FASB, and FASB staff for fall 2019.

Implementation Topic—Leases

The PCC chair began the discussion by noting that the AICPA Center for Plain English Accounting released a document on June 19, 2019, that includes information on unanticipated cost and complexity related to the implementation of Accounting Standards Update No. 2016-02, *Leases*. The PCC chair shared several of the issues featured in the AICPA's document including (1) identification of embedded leases, (2) determination of an incremental borrowing rate, and (3) lease modifications not accounted for as a separate contract. The PCC chair then specified that many of her firm's clients are considering an automated solution to address issues like those featured in the document. The FASB chairman asked whether the number of identified issues will decline once the preparers start applying the standard. The PCC chair replied that while the issues will likely decrease with time, the period required for education will extend beyond implementation of the standard.

One PCC member noted that, from a lender's perspective, capitalizing leases might actually show more repayment capacity for companies. Specifically, he noted that lenders previously applied a multiple to the rent expense included in the income statement in order to estimate the capitalized cost of the leases for purposes of making lending decisions. According to the PCC member, the current trend with the new standard indicates that the lenders' estimates may have been more conservative than the amount ultimately capitalized as a result of the Update.

Another PCC member asked the FASB staff whether outreach has been performed with representatives from the banking industry to make them aware of the various educational materials available. A Board member responded that a lot of time was spent at last year's RMA roundtable discussing the issue. A PCC member specified that RMA has written several articles showing the impact, and the member offered to speak with the American Bankers Association (ABA) and other organizations to urge them to highlight available FASB resources to their members.

The conversation then turned to discussion of the current project on the FASB's research agenda that is considering a one-year delay for implementation of the lease standard. One PCC member noted that a deferral could save their clients significant cost because current lease accounting software is not priced for private companies but will likely become more affordable if private companies are granted an extra year for implementation. Multiple PCC members expressed general support for a delayed lease effective date. A Board member responded that they are sympathetic to private companies but questioned whether the companies will continue to put off implementation if a delayed effective date is provided. The Board member also pointed out that users need the information and a longer delay results in less comparable financial statements and less relevant information for users.

Additional discussion on the research project is included in the *Effective Dates* section below.

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

The FASB staff updated PCC members on the upcoming Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the ITC), and specified that the ITC will seek feedback on multiple subjects including but not limited to whether to change the subsequent accounting for goodwill, whether to modify the recognition of intangible assets in a business combination, and whether to add or change disclosures.

Much of the ensuing discussion focused on a question posed by the staff asking PCC members to identify amortization characteristics for goodwill that they would not support and why? To accompany that question, the staff included a list of several potential amortization characteristics ranging from a standard default period to a period based on management's reasonable estimate.

PCC members expressed wide-ranging views related to that question when it was asked in the context of a potential system-wide change. Several members supported using an amortization period based on management's reasonable estimate, claiming that it would provide more relevant information than that provided by a default amortization period. Other members were not supportive of the underlying complexities associated with preparing and auditing a period related to a management estimate. One Board member clarified that future discussions are expected related to optionality in the accounting.

Among the PCC members supporting a default amortization period, one supported a 15-year period, which would align GAAP and tax accounting. This alignment would function to reduce complexities associated with measuring deferred taxes related to the temporary differences created by different goodwill amortization periods. A Board member questioned whether, if such a decision were to be made, the period should be tied to current tax law, especially if tax laws are subject to independent changes. A PCC member responded that it would be best to align the guidance directly to the tax law for simplicity.

Additionally, the staff noted that the reason why this ITC is being issued is because of the mixed feedback received from preparers and users of public company financial statements.

At the conclusion of the session, the FASB staff shared its plans to discuss additional topics related to the ITC at the next PCC meeting scheduled for September 10 – 11, 2019.

Effective Dates Philosophy

The FASB staff explained that the objective of this project is to research whether effective dates of Accounting Standards Updates should be different between large public companies and smaller public companies, private companies, and not-for-profit organizations. They noted that their research is focused on Updates resulting from major projects that are effective for fiscal years beginning after December 15, 2019, and indicated that the effective dates project consists of a cross-functional staff team that includes staff from the following Topics:

1. Hedging
2. Leases
3. Credit losses
4. Insurance.

Broadly, the discussion on effective dates focused on those for existing major standards and potential future major standards.

PCC members discussed the implications of delaying the effective dates of leases, credit losses, and other recently and soon to be issued major standards that have, because of their sheer number, resulted in significant implementation efforts. The FASB chairman requested clarification on whether the PCC was supportive of delayed effective dates to accommodate private companies in the implementation of the major standards that will be effective in the near future or whether they believe additional time should always be afforded to private companies. A PCC member replied that a two-year deferral is not warranted for all standards but would provide relief for private companies currently struggling with implementation of the revenue recognition and leases standards back-to-back.

Discussion then turned to effective dates for future Updates. While most PCC members supported a delayed effective date for currently issued standards, there were differing opinions on whether additional time should be provided on a go forward basis. One PCC member suggested that an established two-year delay in effective dates for private companies would allow ample time for training and educational materials to be developed, while another member suggested that the current one-year delay (pursuant to the Private Company Decision-Making Framework) is sufficient. Several PCC members asserted that a default rule is not constructive and that the Board should consider effective dates on a case-by-case basis with the help of the PCC.

In response to a Board member's comment that a delayed effective date could result in less comparable financial statements, one PCC member noted that allowing early adoption of standards similarly creates inconsistency across entities but grants flexibility to entities that want to align financial reporting to peer groups. After a Board member asked whether the PCC was supportive of early adoption, several PCC members responded that it should continue to be permitted.

One Board member questioned what the starting point should be related to the Board's discussion of a standard's effective date for private companies. Specifically, the Board member asked whether there should continue to be a consistent one-year delay that the Board would have to justify deviations from or whether the default period, if any, should be established on a standard by standard basis. The FASB chairman suggested a default period could differ based on whether a project is classified as broad, narrow, or a simplification, and PCC members expressed general support for the suggestion.

One Board member noted that emerging growth companies can apply the same effective dates as private companies and asked whether smaller public companies should also be granted the same flexibility. Several PCC members supported that flexibility. A PCC member asked what definition of *smaller public companies* would be used, and the staff replied that existing definitions established by the SEC are being considered.

The conversation concluded with a discussion about whether it is necessary for the Board to offer private companies different effective dates for their interim and annual statements given the fact that most private companies do not prepare interim financial statements. PCC members suggested that although private companies do not commonly report interim information, those that do often assert that their financials comply with GAAP and would therefore be affected if accounting changes were required to be reflected in an earlier interim period.

Reference Rate Reform: Facilitation of the Effects of the Interbank Offered Rate Transition on Financial Reporting

The FASB staff began the discussion by educating PCC members on how this project is different from other projects. The staff emphasized how extensive the effect of rate reform is and stated that the project functions to simplify the accounting evaluation required to determine the appropriate accounting model for each of the affected contracts/hedges. The staff also highlighted the consideration for a unique sunset date feature whereby the updates made would be retracted at a defined (but adjustable) date following the completion of the rate transition.

The staff then provided an overview of the recent Board meeting related to contract modifications, highlighting that the Board made tentative decisions related to the type and scope of relief to be provided by the upcoming guidance. The staff mentioned that the next Board meeting will discuss (1) whether the rate transition will result in a change to the critical terms of a hedge that would require a dedesignation of the hedging relationship, (2) implications related to the hedge effectiveness assessment, (3) sunset date, and (4) cost/benefit and transition considerations.

When staff members completed their overview of the project, the PCC chair commended them for their proactive efforts. Additionally, one PCC member requested that the staff return to provide a more detailed explanation of Board decisions and progress on drafting the proposed Update at the next PCC meeting.

When a Board member inquired about the private company effective date for the Update resulting from this project, the staff noted that without the relief provided by the guidance, all companies (including private companies) affected by reference rate reform would be at risk, for example, of having to discontinue their hedge accounting treatment for many agreements immediately because of what would likely be considered a change in critical terms. As a result, the staff currently expects that the Board will set an effective date that is consistent across all entities, and that date could be upon issuance of the final Update.

The discussion continued with a conversation on how Board members and staff can communicate to private companies both the urgency of adopting the guidance and the fact there will be relief associated with the change. The FASB chairman expressed concern with the significant cost that will be incurred by the private company community if they wait to implement the standard. The dialogue concluded with the FASB staff indicating that they would also use the semiannual continued professional education (CPE) provider forums to communicate the importance of the guidance to a broad range of stakeholders.

Implementation Topic—Current Expected Credit Losses (CECL)

The FASB staff updated PCC members on the following Accounting Standard Updates issued in 2019 that amend Topic 326:

1. Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*.
2. Accounting Standard Update No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*

The staff then discussed the January 2019 credit losses roundtable related to the proposed alternative submitted by a group of regional banks and noted that the Board decided the proposed alternative would not result in incremental improvements to the accounting for expected credit losses.

The staff highlighted some of its implementation activities, including a recent Staff Q&A related to the Weighted Average Remaining Maturity (WARM) credit losses methodology. The staff also discussed an upcoming Staff Q&A related to the application of the reasonable and supportable forecasting requirements in Topic 326. The staff noted that it was drafting a proposed Accounting Standard Update on the Board's recent decisions on recoveries for purchased financial assets with purchased credit deteriorated (PCD) financial assets and other miscellaneous clarifications and technical improvements to Topic 326 (issued 6/27/19).

In response to a question from the staff, one PCC member stated that their firm's clients (small and midsize financial institutions) have noted resource and educational constraints as a challenge when implementing Topic 326. The staff highlighted that entities are not required to use third-party vendors or purchase third-party data to determine their allowance for credit losses. The staff highlighted that the guidance in Topic 326 is intended to be flexible and scalable based on an entity's size and the composition of its loan portfolio. The staff noted that the upcoming Q&A regarding the application of the reasonable and supportable forecasting requirements should provide additional implementation resources for private companies.

Another PCC member requested that the FASB staff provide additional examples to assist private companies when implementing the credit losses standard for trade receivables. In order to determine whether additional examples are necessary and what type of examples would be beneficial to these particular stakeholders, the staff requested that the PCC member provide their clients with the relative guidance in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and, in particular, Example 5: Estimating Expected Credit Losses for Trade Receivables Using an Aging Schedule. The staff further requested that the PCC member, after performing outreach with these clients, provide the staff with the questions and concerns raised about the guidance in Update 2016-13, Example 5, and a more specific fact pattern so the staff could develop an example that will better help private company stakeholders.

The staff also noted that it is planning a series of educational Road Shows and webinars to address implementation questions and timely feedback from PCC members on these topics would allow the staff to incorporate that feedback into the educational materials.

Simplifications to Accounting for Income Taxes

The staff shared this project's background and overall simplification objective with the PCC. The staff also provided the PCC with an overview of the project's timeline, focusing the PCC's attention on the issuance of the proposed Update in May 2019.

The staff then educated the PCC on the following four issues addressed in the proposed Update:

1. Intraperiod tax allocation exception to incremental approach
2. Interim period accounting for enacted changes in tax law
3. Franchise taxes that are partially based on income

4. Year-to-date loss limitation in interim period tax accounting.

Related to the issue on intraperiod tax allocation, one PCC member asked the staff to clarify (1) the motivation behind removing the exception, and (2) the nature of the restatements related to the issue. The staff explained that the issue is an exception to the general principle in Topic 740 for intraperiod tax allocation, so preparers do not realize they need to apply it if their operations do not commonly result in a loss from continuing operations and income/gain outside of continuing operations (which triggers the exception). The staff further clarified that the overall amount of tax expense would not change under the amendments in the proposed Update but, instead, the allocation between continuing operations and items other than continuing operations would change. A Board member explained that while the theory behind both the current guidance and the proposed guidance could be supported, the Board decided to reduce the complexity around the accounting for intraperiod tax allocation, especially when the underlying tax calculation is a single calculation that does not distinguish between continuing operations and items other than continuing operations.

The staff concluded the discussion by highlighting the four other issues (plus two minor Codification improvements) included in the proposed Update. One PCC member requested more information on the issue related to the tax basis step-up in goodwill that is obtained in a transaction that is not a business combination. In response, the staff explained that the issue involves determining, for purposes of recognizing deferred taxes, whether a tax basis step-up relates to the original business combination or a separate transaction.

Multiple PCC members expressed their support for the simplification suggestions included in the proposed Update.

Emerging Issues Task Force (EITF) and Revenue Recognition

The FASB staff provided the PCC with an update on the Issues discussed at the June 13, 2019 EITF meeting. The staff began the discussion by highlighting EITF Issue No. 18-A, "Recognition under Topic 805 for an Assumed Liability in a Revenue Contract." The staff explained that the Task Force did not affirm its consensus-for-exposure and thus the staff plans to bring the feedback to a future Board meeting to discuss the path forward.

The FASB staff then discussed EITF Issue No. 19-A, "Financial Instruments—Clarifying the Interactions between Topic 321 and Topic 323." The staff reported that the Task Force reached a consensus-for-exposure on two of the three sub-issues being considered. The staff explained that as a result of not reaching a consensus-for-exposure on all three sub-issues, the Task Force decided to remove the sub-issue on which a consensus-for-exposure could not be reached from the scope of the project. The staff highlighted that decisions reached on Issue 19-A are subject to ratification by the Board at the June 26, 2019 Board meeting, and, if ratified, a proposed Update would be issued for comment in the third quarter.

The FASB staff completed the EITF discussion by updating the PCC on progress related to EITF Issue No. 19-B, "Revenue Recognition—Contract Modifications of Licenses of Intellectual Property." The staff informed the PCC that there will be an upcoming working group meeting to obtain feedback on alternatives for this Issue and noted that the discussion will involve a private company preparer and will be observed by a PCC member.

Lastly, a staff member from the revenue recognition project team highlighted that the EITF Issues related to revenue are the first post-adoption issues considered for standard setting. They further indicated that they stand ready to answer any technical inquiries from private company stakeholders.

PCC Issue No. 2018-01, "Practical Expedient to Measure Grant Date Fair Value of Equity-Classified Share-Based Awards"

The FASB staff updated members of the PCC and FASB on the recent outreach performed with auditors related to the following aspects of private company share-based awards:

1. Pervasiveness of equity-classified share options
2. Preparer procedures to determine the strike price of share option awards
3. Practitioner procedures to audit the current price input to the option pricing model
4. Preliminary draft of the proposed practical expedient.

The FASB chairman began the discussion by asking PCC practitioner members whether they thought the feedback presented by the staff was consistent with their practice. Two of these members replied that they thought the feedback was consistent with practice but highlighted that the feedback indicating that between 5 and 10 percent of audit time is spent on share-based compensation (SBC) may be an overestimate. In response to a follow-up question from a Board member, several PCC members expressed their belief that the 5 to 10 percent estimate may be a result of practitioners considering SBC a high-risk audit area in all cases (even when awards are immaterial), thus requiring practitioners to use significant judgment. The PCC chair agreed with this assertion. The FASB vice-chairman noted that the estimate of 5 to 10 percent likely encompasses all audit considerations related to SBC, not just time spent testing the current price input and associated 409A valuation.

The PCC chair indicated that although feedback suggested that a firm's valuation experts are not typically involved for immaterial SBC, it is common in practice for valuation experts to review the area regardless of materiality. The FASB chairman requested further clarification on why valuation experts are involved when SBC is considered immaterial, especially because this assertion contradicts information obtained through the outreach effort. In response, a PCC member stated that the observations from the outreach feedback are generally consistent with practice but specified that auditors must sometimes perform relatively robust procedures in order to conclude that the SBC is immaterial. The PCC member highlighted that if a preparer's methodology for determining current price is consistent over reporting periods, practitioners will often apply limited procedures in subsequent reporting periods.

Several PCC members then discussed the relevance of SBC information to users of private company financial statements and stressed that even when SBC information is material, users do not view it as relevant. Another PCC member suggested that users focus on the existence of SBC as opposed to the precision of its measurement.

In response to the FASB staff's overview of practitioner feedback received on the preliminary draft of the proposed practical expedient, the FASB chairman asked whether there was any connection between the practitioners' responses about the proposed practical expedient and the level of their clients' size and/or sophistication. The FASB staff responded that it did not find consistent themes from the assertions made by practitioners regarding the proposed practical expedient and their client base.

A Board member emphasized the importance of evaluating whether the proposed practical expedient would result in significant cost savings and highlighted that feedback from practitioners suggested that audit cost would not be significantly reduced. One PCC member suggested that the results of the outreach may not be representative of the level of cost savings because participants in the outreach were "national office" partners rather than line partners. The PCC member further suggested that there will likely be cost savings for both practitioners and preparers and stressed that the savings should be considered in totality. A Board member highlighted that outreach indicated preparers are not likely to change their procedures to determine current price based on the proposed practical expedient. A preparer PCC member confirmed that while their firm would still perform a robust valuation, it would decrease requirements related to documentation. Another preparer PCC member asserted that their operational procedures would not change based on a practical expedient. One PCC member highlighted that accounting for SBC is unnecessarily costly and complex for a meaningful subset of private companies (such as pre-revenue companies) and that consideration of cost savings should not be generalized.

A Board member stated that they do not believe that the issue has a sufficient cost argument to justify a difference between public and private companies. In response, the PCC chair highlighted that there is already a difference between private and public because there is no readily observable fair value of a private company's shares underlying an SBC award. The PCC chair then referenced the FASB's post-implementation review (PIR) performed on SBC and stated that she believes that this report supports the assertion that the standard is more costly and complex for private companies than public companies. The FASB chairman agreed with the conclusion in the PIR report but stressed the importance of determining whether the FASB or the Auditing Standards Board (ASB) should be tasked with reducing costs.

After noting that the proposed practical expedient only applies to equity-classified share option awards that, pursuant to the SBC plan, must be issued at market value, the FASB chairman asked what legal risks exist if a company does issue an in-the-money option. A PCC member stated that prior outreach performed on this project with an attorney suggested there are instances in which directors can become personally liable for such deviations from an SBC plan. The FASB chairman cautioned that relying on the requirements of an SBC plan for setting accounting standards may not be sufficient.

To conclude the discussion, the PCC chair called a vote to determine whether additional outreach should be performed with preparers. Six PCC members voted in favor of conducting preparer outreach.

Open Discussion

The Open Discussion focused on the FASB technical agenda projects concerning the disclosure framework reviews for income taxes and inventory. As part of the discussion, a PCC member advised the FASB to consider (1) the significant cost incurred by private companies to prepare the income tax provision and related disclosures, and (2) the disconnect between GAAP and practice with regards to the subsequent measurement of inventory.