

Private Company Accounting Update

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The views expressed in this presentation are those of the presenters. Official positions of the FASB are reached only after extensive due process & deliberations



Disclaimer

Caveat on Content

- When I state opinions, they are my own
- I have tried to update these slides based on our last meeting but some items are somewhat fluid
- Everything else is also an example (especially financial statement presentation and my views on OCI)
- I will surely say things others don't agree with

A Few Words of Thanks

- NASBA for Leadership
- FAF and Mack Lawhon for courage and support
- Other PCC members including Billy Atkinson and Diane Rubin
- FASB members
- NASBA Leadership attending PCC meetings – Carlos and Walter. Visible support of the process makes a difference.

The PCC and Me

Who We Are – Who I Am

- 9 members and a Chair
 - Users, Preparers and Practitioners
 - Most of us have multiple perspectives
- Charleston SC, public accounting to Charlotte NC
- CFO of a large privately held company
 - Building products industry
 - Have lots of customers and vendors
 - Cash is more relevant than reported earnings
- Also a beekeeper (if Billy can tell stories, so can I)

FAF Governance of the PCC

PCC is still new

- While we have been around 3 years, we are still toddlers
- Year 1 - establishing relationships as much as initial projects (low hanging fruit)
- Year 2 – dealing with harder issues, beginning to gel as a group and with others (staff, FASB)
- Year 3 starts the review process
- Not time to claim we are mature enough for less FAF oversight to ensure FAF focus

Outreach is important

- Town Halls (Seattle, Ohio State, SMU)
- NAATS (next month)
- TIC outreach
- Speeches (Billy talks at least once or twice a month)
 - Others each give talks regularly
- Must hear ‘from the horses mouth’ what they would do if they were in charge of GAAP
- More outreach is better, we have had too little from private companies in the past

PCC structure

- Number of people seems fine
- Number of meetings seems OK
- Time required can be significant
 - Outreach
 - Thought processing
 - Socialization of thoughts and issues
- The Chair should be a compensated position
 - Spends more time for the cause than most FAF Board members

What the PCC Has Accomplished

ASUs to help private companies

- 4 ASUs
 - Goodwill amortization – 10 years or less
 - Customer Lists (goodwill in an acquisition)
 - Simplified hedging for floating to fixed interest rate hedges
 - VIEs treatment of lessors under common control (the implied guarantee test)

What the PCC Has Accomplished

Additional Activities

- Unconditional One Time Option without assessing 'Preferability' – very important and underway
- Private Company Decision Making Framework to frame discussions around when alternatives may need to be considered
- Definition of a private business entity
- Development Stage Enterprise disclosures
- Going Concern disclosures
- Advising on current agenda topics (leases, etc.)

Major projects underway

Major current projects

- Share based compensation
- Current Debt classification
- Simplification issues
 - Make GAAP more relevant to Main Street
- To Do – sort out when agenda items affect public companies
 - Those topics are still of importance to private companies

FASB and Agenda Setting

Owning the agenda controls the results achievable

- Russ Golden gets it
- The PCC needs to be able to decide what projects are most relevant – set its own agenda
- Without agenda setting ability, difficult projects may not get the resources needed to address them (they are difficult for a reason)
- We have to work together and coordinate agendas

Advisory vs. Standard Setting

Carrot and Stick

- I was on the PCFRC as well
- We could not effectively influence change but had a better relationship with the FASB at the end
- PCC has the structure to require that change be addressed
 - Should not be confrontational
 - Advisory only would be a mistake

3 Year Review – NASBA comments

- Thank you for your comment letter - I agree with you
- My opinion is we would not have accomplished what we did if those changes were in place from the beginning
- It is getting more difficult, not easier to make changes
- The support of FAF and NASBA is important
- An example of what we can accomplish -

My Personal Crusade

OCI

- OCI is ridiculous
- Changes to Cash Flow Statement
 - Merge financing and Investing
 - Add non-operating external cash sources and uses
- Align the Income Statement with Cash Flow Statement
 - Earnings from current operations
 - Earnings from long term operating decisions
 - Earnings related to external factors
- Impact – EBITDA , segregation of fair value, no derivative documentation, relevant and decision useful