**MINUTES OF THE DECEMBER 3, 2020 PRIVATE COMPANY COUNCIL MEETING**

| | |
|---|---|
| Location: | Virtual meeting; broadcast live on the FASB website |
| Meeting Date: | Thursday, December 3, 2020 |
| Starting Time: | 11:00 a.m. EST |
| Concluding Time: | 3:33 p.m. EST |

**PCC Members Present:**
Candace Wright (Chair)
Zubin Avari
Timothy Curt
Jeremy Dillard
David Lomax
Michael Minnis
Holly Nelson
Richard Reisig
Dev Strischek
Yan Zhang

**PCC Members Absent:**
Frank Tarallo

**Incoming PCC Member Observers:**
Robert Messer
Doug Uhl

**FASB Board Members Present:**
Rich Jones (Chair)
James Kroeker (Vice-Chair)
Christine Botosan
Gary Buesser
Susan Cosper (FASB – PCC Liaison)
Marsha Hunt
Hal Schroeder

**FASB Staff Present:**

| | | |
|---|---|---|
| Hillary Salo | *Mackenzie Hitchcock | *Mary Mazzella |
| Jeffrey Mechanick | *Samantha Tice | *Steven Whitman |
| Jenifer Wyss | *Joy Sy | *Bobbi Gwinn |
| Autumn Zobrist | *Shannon Garavaglia | *Fungisai Chambwe |
| Preston Lewis | *Jordan Anwer | *Alyssa Mancini |
| *Chris Bohdan | *Julia Blair | *Peter Proestakes |
| *David Yates | *Chris Roberge | *Jermaine Phua |
| *Carolyn Warger | *James Starkey | |

*For certain issues only.

**FAF Representatives Present as Observers:**
John Auchincloss, FAF Executive Director
Diane Rubin, FAF Trustee

**Introductory Remarks**

1. The PCC Chair welcomed PCC members, FASB members, and FASB staff to the Council's December meeting, which was held virtually because of the COVID-19 pandemic. The PCC Chair separately welcomed two incoming PCC members, Robert Messer and Doug Uhl. Their terms will commence January 1, 2021. Mr. Messer and Mr. Uhl were nonvoting participants in the meeting.
2. The PCC Chair also welcomed Diane Rubin, the FAF Trustee observing the meeting. Ms. Rubin's term as an FAF Trustee will conclude at the end of 2020. The PCC Chair thanked Ms. Rubin for supporting the PCC throughout her term.
3. The PCC Chair recognized and thanked the following PCC members whose terms will conclude at the end of 2020: Richard Reisig, Dev Strischek, and Frank Tarallo. The PCC Chair congratulated Mr. Reisig on his recent appointment to the FAF Board of Trustees.

**Profits Interests and Their Interrelationship with Partnership Accounting**

4. FASB staff briefly summarized the PCC's prior discussion about profits interests and partnership accounting. FASB staff noted that a working group was formed in August comprising three PCC members and a member of the AICPA Private Companies Practice Section Technical Issues Committee (the AICPA's TIC). The working group currently is conducting outreach with specialists to better understand legal, tax, and valuation issues associated with profits interests. Based on the initial outreach conducted, FASB staff described common valuation methodologies used to measure awards of profits interests and some of the factors that contribute to complexity in practice. FASB staff reiterated that its outreach was in the early stages and would be supplemented by additional outreach and research going forward.

**Current Issues in Financial Reporting**

5. FASB staff highlighted that the FASB Staff Educational Paper, *Topic 470 (Debt): Borrower's Accounting for Debt Modifications*, was recently made available on the FASB website. The PCC Chair observed that the paper was well done and included several helpful examples that would be useful to stakeholders. FASB staff noted that in response to PCC members' suggestions that the FASB improve the usability of its website for stakeholders, a "quicklink" titled "FASB Response to COVID-19" was recently added. The educational paper is posted on that webpage along with several other COVID-19 resources.
6. FASB staff briefly reviewed the Goodwill—Triggering Event Assessment Alternative for Private Companies and Not-For-Profit Entities project, which was added to the Board's technical agenda in response to feedback received from the PCC and the AICPA's TIC, and for which the Board has instructed the staff to proceed with a proposed Accounting Standards Update. FASB staff requested feedback from the PCC on the 30-day comment period decided by the Board. Given the proximity to year-end, PCC members concurred with the comment period length.
7. PCC members and FASB members discussed which entities should be included in the scope of the accounting alternative. PCC members suggested clarifying which entities are included within the scope of the alternative. FASB staff noted that the scope of the accounting alternative to be proposed will include private companies and not-for-profit

entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) on an annual basis. The PCC Chair questioned how the alternative would be applied by an entity that typically does not provide interim financial information but begins doing so for a specific purpose such as obtaining new debt. FASB staff noted that the FASB response to that issue is being developed. PCC members observed that many entities provide GAAP-based financial information to stakeholders on an interim basis but do not include a full set of financial statements with notes. One preparer PCC member disagreed with the described scope and recommended that the entities only be excluded if they provide a full set of financial statements with footnotes.

8. An FASB member observed that an entity providing financial information that explicitly notes exceptions to GAAP potentially would be able to apply the alternative. A PCC member supported that interpretation of the scope. Another PCC member questioned whether the explicit note of GAAP exceptions would be sufficient for auditor requirements. A practitioner PCC member stated that the exception language would likely be sufficient for most auditors. A financial statement user PCC member stated that most users are familiar with using interim statements that are not fully in accordance with GAAP.

9. An FASB member observed that testing goodwill for impairment only annually results in lost information for investors. A PCC member that is an equity investor stated that the goodwill information reported in the financial statements is not typically relevant to most investors. He stated that when goodwill is material, investors typically perform their own analyses and include nonpublic information.

10. FASB staff noted that the Board intended to align the relevance of the inputs to the goodwill impairment analysis with the date that financial information is provided, and that the alternative was designed to include information about potential impairments as of the balance sheet date. The FASB Chair reminded the group that judgment is required in identifying and assessing triggering events.

11. PCC members noted that an entity that elects the alternative and later becomes public would have to unwind the alternative. FASB staff acknowledged that that would be challenging. An FASB member noted that entities that go public could have to unwind other accounting alternatives such as amortizing goodwill. That FASB member expressed interest in receiving feedback on whether this alternative would be more difficult to unwind than others and potential solutions to those challenges.

12. An incoming PCC member who is a preparer inquired whether the Board had considered extending the accounting alternative to other nonfinancial assets. The Board noted that the information for impairment testing of other nonfinancial assets is more readily available to entities and is generally simpler to apply. Consequently, the Board chose to limit the scope of the alternative. FASB members and PCC members also discussed whether the alternative should be available temporarily or on an ongoing basis. FASB members observed that the pandemic has highlighted existing challenges within the guidance. Some FASB members preferred a narrow-scope, ongoing alternative. One FASB member supported a temporary alternative combined with a holistic assessment of the existing guidance in conjunction with the existing FASB project, Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

13. FASB staff expects the proposed Accounting Standards Update to be issued for public comment in mid-December.

**Identifiable Intangible Assets and Subsequent Accounting for Goodwill**

14. FASB staff provided the PCC with an update on this project, including recent Board discussions and the expected timeline. FASB staff noted that the Board will meet for a decision-making meeting in mid-December.

15. FASB staff provided an overview of the approaches being considered by the Board for amortization periods, including default amortization periods, management-determined amortization periods, and approaches with elements of both.

16. Several PCC members stated the importance of having the same amortization period for all types of entities. PCC members mostly supported a 10-year default amortization period and generally provided support for management deviations longer or shorter than a default amortization period, with justification. Some PCC members noted that when management deviated from the default amortization period in practice, such deviations were justifiable. Some PCC members stated that they have not observed private companies immediately writing off goodwill. A couple of PCC members noted a 15-year period would align with goodwill amortization for tax purposes.

17. Some PCC members expressed the need for a floor to be imposed on the amortization period, others did not think a floor would be necessary, and still others preferred that a cap be considered. An incoming PCC member who is a preparer noted that a default range or guidance on selecting an appropriate amortization period would be helpful. The FASB staff members indicated that they will ask the PCC members to provide thoughts on potential transition issues at a future date.

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

18. FASB staff gave an overview of the feedback received from comment letters in response to the proposed Accounting Standards Update—*Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards*. PCC members discussed the comment letter feedback on the following areas associated with the proposed practical expedient:

    a. Expected costs and benefits

    b. Scope

    c. References to the Internal Revenue Code Section 409A

    d. Award-by-award application

    e. Transition

    f. Other ancillary issues.

19. PCC members noted that although the practical expedient would not reduce costs for a significant number of companies, some comment letters indicated that the practical expedient would reduce costs for some companies. Several PCC members noted that some companies, such as those that currently obtain multiple valuations, may experience a greater cost reduction from the practical expedient compared to other companies. Several

PCC members noted that the comment letters indicated that most companies currently are only obtaining one valuation to satisfy both GAAP and tax requirements and, therefore, the practical expedient might codify current practice. Several PCC members noted that the greatest cost savings for companies applying the practical expedient may come from the ability to value share-based payments using a valuation that is not more than 12 months old when certain criteria are met.

20. PCC members asserted that it is important to contextualize the comment letter feedback with the PCC's past research as well as the perspectives of the comment letter respondents. One PCC member noted that in prior outreach with users, share-based payment expense was described as the least valuable piece of information related to share based payments and disclosures were described as the most valuable.

21. Some PCC members noted that the comment letters generally indicated that the practical expedient would not compromise the decision usefulness of share-based payment expense information and that the practical expedient would be operable.

22. PCC members noted that most comment letters suggested expanding the scope of the awards to which the practical expedient could be applied. PCC members supported considering expanding the scope to include other equity-classified share-based awards, as well as liability-classified share-based awards, and discussed whether to limit the expanded scope to awards within the scope of Topic 718, Compensation–Stock Compensation.

23. The FASB Chair expressed concerns over the implications of directly referencing a tax regulation within the practical expedient (and, therefore, the Codification). Those concerns included: (a) whether a change in the tax regulations would automatically result in a change to GAAP, (b) whether the FASB would need to continually monitor changes to Internal Revenue Code Section 409A, and (c) whether an IRS audit could result in a restatement of the financial statements. Some PCC members echoed some of those same concerns. In response to those concerns, the PCC Chair noted that the proposed practical expedient was referenced to the tax regulations in part because preparers and practitioners would already be familiar with that guidance. Another PCC member highlighted that direct reference to the tax regulations is necessary to achieve the objective of aligning tax and GAAP valuations. In other words, if language other than a reference to the tax regulations was codified, any changes to the tax regulations would naturally result in different tax and GAAP requirements. Others suggested (a) researching the difference between a direct and an indirect reference to the tax regulations or (b) indicating that the practical expedient was referencing tax regulations as of a certain date.

24. The PCC also discussed whether to provide guidance on the circumstances in which a valuation can be used to measure awards granted after the initial valuation date by either (a) referencing an existing paragraph in the Internal Revenue Code Section 409A or (b) creating new guidance in GAAP. One PCC member preferred the former.

25. PCC members discussed clarifying the application of the practical expedient on an *award-by-award basis* to mean a *measurement-date-by-measurement-date* basis.

26. FASB staff noted that respondents agreed with the proposed prospective transition method. PCC members raised no concerns about retaining a prospective transition.

27. FASB staff noted that some respondents suggested alternative approaches to the practical expedient. PCC members preferred to continue to pursue the proposed practical expedient rather than alternative approaches. The PCC Chair suggested adding illustrative examples to support the application of the proposed practical expedient.

28. At a future meeting, the PCC will consider expanding the scope of the practical expedient, clarifying the basis of application, expanding the references to Internal Revenue Code Section 409A, and the difference between a direct and an indirect reference to Section 409A.

**Implementation Issues—Revenue**

29. FASB staff provided the PCC with an update of the Revenue Recognition—Practical Expedient for Private Company Franchisors project and the proposed Accounting Standards Update, *Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*, whose comment period ended in early November. The project seeks to address certain difficulties private company franchisors experience in applying Topic 606, Revenue from Contracts with Customers. FASB staff briefly summarized the comment letter feedback received and asked PCC members for feedback.

30. Generally, PCC members supported the Board's efforts to reduce the cost of applying the revenue guidance for private company franchisors. FASB members and PCC members discussed how private franchisors analyze the performance obligations and standalone selling prices for initial services.

**Implementation Issues—Leases**

31. FASB staff provided the PCC with an update on the post-implementation review process and summarized the Board's discussion at the December 2, 2020 Board meeting. The staff highlighted that at that meeting, the Board directed the staff to conduct additional research on the practical expedient that allows nonpublic lessees to use the risk-free rate as the lease discount rate. Specifically, the Board requested additional information on the appropriateness of the risk-free rate and whether the practical expedient should be applied at the underlying-class-of-asset level rather than at an entity-wide level.

32. An FASB member asked PCC members for feedback on replacing the risk-free rate in the practical expedient with an alternative rate (for example, an A or BBB rate). Certain PCC members stated that a fixed rate other than the risk-free rate would be preferable. An incoming PCC member who is a preparer observed that a rate such as the A or AA rate would be more closely aligned with an entity's incremental borrowing rate and may better reflect the economics of the lease.

33. A PCC member who is a user of private company financial statements observed that there is diversity in how data aggregators and financial analysts incorporate leasing information in their models.

**Disclosure Review—Share-Based Payments**

34. FASB staff provided an overview of this research project, the objective of which is to conduct a comprehensive review of the disclosure requirements in Topic 718, Compensation—Stock Compensation, to assess the sufficiency and relevancy of the existing disclosures and determine whether incremental improvements are needed.

35. FASB staff highlighted private company considerations raised during research. FASB staff also noted that, on the basis of unnecessary cost and complexity as well as perceived lack of relevance to financial statements users, the AICPA's TIC requested certain disclosures be removed for private companies, such as activity rollforwards, unrecognized expense, weighted average grant date fair value of options granted, and intrinsic value of options exercised.

36. PCC members who are preparers and practitioners noted that the current required disclosures for private companies generally are not difficult to prepare and those disclosures provide relevant information to users of private company financial statements. However, some PCC members indicated that there could be some opportunities to improve or streamline certain disclosures (such as those for activity rollforwards) for private companies. Another PCC member noted that there can be challenges for startup companies in determining share-based payments that are expected to vest.

37. A PCC member who is a user of private company financial statements noted that share-based payment disclosures are used in analyses to determine the value of a company, including the unrecognized portion of the stock compensation expense. That PCC member noted that he views outstanding share options as a valuation issue, rather than a dilution issue, though he acknowledged that either view should arrive at a similar result.

**Concluding Comments**

38. The PCC Chair thanked everyone for their participation and expressed appreciation to the outgoing PCC members and the outgoing FAF Trustee.