

Private Company Council

FASB Offices, 401 Merritt 7; Norwalk, Connecticut

Public Meeting Minutes

Thursday, December 6, 2012

List of Participants

Private Company Council (PCC) Members

Billy Atkinson	George Beckwith	Steven Brown	Jeffery Bryan
Mark Ellis	Thomas Groskopf	Neville Grusd	Carleton Olmanson
Diane Rubin	Lawrence Weinstock		

Financial Accounting Standards Board (FASB)

Leslie F. Seidman	Daryl E. Buck	Russell G. Golden	Thomas J. Linsmeier
R. Hal Schroeder	Marc A. Siegel	Lawrence W. Smith	

Financial Accounting Standards Board Staff

Susan M. Cospers	Jeff Mechanick	Michael Cheng	Kailee Boyce
Elizabeth Gagnon	Daghan Or	Thomas Skoglund	Kathryn Cantlon

Financial Accounting Foundation (FAF)

Terri Polley	Mack Lawhon	Grace Hinchman
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Transition from the Private Company Financial Reporting Committee (PCFRC)

Look-back Projects

FIN 48 was one of the first issues the PCFRC addressed. The efforts of the PCFRC regarding this issue resulted in interpretative guidance concerning pass-through entities. The PCFRC stated that the interpretive guidance addresses most of the questions surrounding this issue, but some narrow issues remain that the PCC may decide to add to its agenda. The PCFRC stated that these narrow issues should not be a priority for the PCC.

The PCFRC recommends that the PCC address the FIN 46R issues related to private companies at the onset. The PCFRC encourages the PCC to segment and frame the issues appropriately and to look for ways to eliminate the broad diversity in practice, while keeping in mind the complexities of this issue and maintaining realistic expectations.

The PCFRC stated that its accomplishments regarding goodwill with respect to private companies will be a leading indicator of what the PCC can hope to accomplish with its efforts. The PCFRC and the Board spoke extensively about the differences between public and private companies when testing for goodwill impairment. That discussion resulted in the Board adding the project to its agenda. The Board subsequently decided the resulting Accounting Standards Update applies to both public and private companies. The PCFRC believes that this is an example of how the PCC can work toward private company goals and let the Board decide whether the same guidance should apply to public companies.

Administrative

The PCFRC recommended that the PCC appoint liaisons to the projects on the FASB's current technical agenda. They believe that it is the most effective approach from a time-savings perspective and it will facilitate topical discussions between the staff and the PCC.

The Board found it helpful to hear from PCFRC members about any disagreements among committee members as well as the reasoning behind those disagreements. The PCFRC recommends that the PCC continue to share the different viewpoints of PCC members with the Board going forward to better facilitate the Board's decisions.

During every meeting, the PCFRC talked about accounting standards in relation to auditing standards and other aspects of the current accounting environment. The PCFRC recommends that the PCC keep in mind the environment in which accounting standards exist when acting in an advisory capacity to the Board as well as during its consideration of the look-back projects.

The PCFRC believes that it is important to establish a working relationship with the EITF to facilitate coordination between the two bodies. Because some EITF issues are tremendously relevant to private companies, the PCFRC recommends that the PCC be aware of those issues and provide feedback to the EITF.

The PCC has not made a decision about working closely with the EITF but has discussed it in preliminary education sessions. The PCC has an interest in working with any accounting standard-setting advisory body that has an effect on private companies. The individual replacing Larry Weinstock as a member of the EITF is also expected to bring a private company preparer perspective to the EITF.

Private Company Decision-Making Framework

The PCFRC worked extensively on the Private Company Decision-Making Framework (PCDMF) with the FASB staff. The PCFRC finds the document to be of good quality, especially in its ability to identify the differences between public and private companies. The PCFRC suggests that the PCC keep the following in mind:

1. That the primary users of private company financial statements as outlined in the PCDMF are not the only users of private company financial statements
2. That a more a scalable approach with respect to the definition of a private company was envisioned by the PCFRC
3. That a “wait and see” approach with respect to the “all or nothing” approach as described in the PCDMF discussion paper, is recommended by the PCFRC.

FASB Current Technical Agenda

The PCFRC has been monitoring the Liquidity and Interest Rate Risk Disclosures project and the adverse impacts the proposed requirements could potentially have on private companies.

The PCFRC finds OCI to be irrelevant, not cash flow driven, and a home for “wayward debits.”

Sometimes financial instruments projects have their genesis with financial institutions and tend to find their way to “Main Street” companies in terms of their broad applicability. It is important to monitor those projects and their potential applicability to non-financial institutions.

The PCFRC has been active on the Leases project with respect to related-party guidance and developing practical expedients, most notably the use of a risk-free discount rate when another discount rate is unavailable.

The PCFRC has also provided feedback on the Revenue Recognition, Going Concern, Investment Property Entities, Disclosure Framework, and Derivatives and Hedging projects.

Outreach

The PCFRC encourages the continued maintenance and use of existing resource groups for outreach purposes. The PCC expects to continue utilizing resource groups as much as possible. “Main Street” companies comprise a very diverse and broad group so it is important that the PCC receive as much input as possible.

The PCFRC had on its website a place for constituents to provide their input on a particular issue and provide their contact information to the PCFRC. While there were not many constituents who provided feedback in this manner, it is a very important form of outreach. The PCFRC recommends that the PCC continue these efforts to receive as much constituent feedback as possible.

It is also important to leverage all PCC members' networks for outreach purposes.

Agenda Direction for Look-Back Projects

The agenda direction memo prepared by the FASB staff for the PCC included the following areas of concern voiced by private company constituents.

Most commonly mentioned items:

1. Variable Interest Entity (VIE) Guidance
2. Uncertain Tax Positions
3. Fair Value Measurement and Disclosures
4. Disclosures Related to Defined Benefit Pension and OPEB Plans
5. Impairment Testing of Goodwill and Intangibles
6. Derivatives and Hedge Accounting

Less commonly cited items:

7. Stock Compensation
 - Other Equity Issues
8. Other Comprehensive Income

PCC members agreed that some of these items are very important and very complex (for example, VIE accounting), while others may be simpler and shorter-term (for example, plain vanilla interest rate swaps) but still have large impacts on the private company community.

One PCC member voiced support for the FASB staff to examine all of the main items identified in the agenda direction memo (Items 1-6) because that would give the PCC better direction about how to proceed and because those items are constantly areas of concern in practice. He also noted that PCC members appear to be familiar with the items, thus only a small amount of background would be needed. He expressed significant concern regarding VIE accounting for private companies.

The FASB staff clarified that agenda papers prepared by the FASB staff for the PCC's consideration when deciding whether to add an item to the PCC agenda would include

background information, current concerns surrounding the issue, feedback received to date, and a brief overview of how the PCDMF would be applied to the issue. The agenda papers would include parameters and some preliminary alternatives to help the PCC decide on the scope of any projects it may wish to add to its agenda.

One PCC member suggested prioritizing the eight items outlined in the agenda memo and having the staff prepare agenda papers on the most important items first to make sure the staff and the PCC completely understand the issues and the possible alternatives.

Other participants agreed that it is important to level-set expectations, and although the FAF and the FASB are committed to devoting resources, those resources are limited. One Board member reminded the PCC members to consider their own bandwidth, especially that of the users in the PCC because it will take considerable time for them to get up to speed on some of the more complex issues.

One PCC member encouraged other PCC members to consider the amount of time required to stay up to date on the FASB's current technical agenda and the wide-reaching impacts of those current projects. That council member also recognized that while VIE guidance might have the most angst behind it, it would take a longer period of time to complete than some of the other suggested agenda items and should be added sooner rather than later.

One Board member reminded the PCC to keep in mind that the current Disclosure Framework project might solve some of the disclosure issues relating to some of the proposed agenda items (for example, pension disclosures).

A PCC member noted that some issues may have been resolved by the market and will not need to be added to the PCC agenda.

One PCC member suggested that the FASB staff prepare agenda papers on the following three topics:

1. Derivative Swaps (synthetic accounting)
2. The separate identification of intangible assets (other than goodwill) identified in connection with a business combination
3. VIE Accounting.

That PCC member also emphasized the importance of framing the issues appropriately (especially VIE accounting), as opposed to holistically trying to change the accounting, and providing private company examples and clearer language. Several PCC members supported the three topics mentioned above.

One Board member questioned placing more emphasis on look-back projects versus the FASB's current technical agenda. He added that the PCC should decide whether it would like to address the current technical agenda with the same urgency as the look-back projects. He recommended

that a combination of advising the Board on current technical agenda projects and on the look-back projects so that the Board does not lose the valuable private company prospective.

Other Board members advised the PCC to identify a distinct problem and then set the scope with respect to the look-back projects. Adding a look-back project to the agenda with an implicit solution in mind is not the purpose of the PCC. Rather, the PCC should evaluate all alternatives. The staff will have to research all of the possible alternatives, and, as a result, the agenda papers may take more time than expected, but this is necessary for the PCC and the Board to have robust discussions about those issues. Another Board member added that usually the hardest part is figuring out the problem that needs to be solved and that the PCC should add only two or three issues to its agenda at first to allow time to fully discuss the potential alternatives.

Several Board members and a PCC member commented on the difficulties involved in scoping these issues. One PCC member added that the potential for more scenarios to creep into the scope of these issues is concerning because it increases the complexity of the issue. He believes in taking an approach under which the PCC takes on a certain number of projects and then when one issue is resolved, the PCC takes up the next most important issue. Projects with different timelines would make it easier to roll projects on and off the agenda.

One PCC member suggested taking on projects for which significant research has already been performed so that the PCC can learn the process and will be able to adapt the process going forward.

One Board member suggested that if the PCC directs the staff to research the derivative and hedging issues relating to interest rate swaps, the PCC should examine the implications of having only one derivative and requiring fair value financial asset disclosures of private companies.

A Board member suggested waiting for the post-implementation review of FAS 141R to be completed before starting on the business combinations issues of Level 3 intangibles and goodwill. The review is expected to be completed in the first quarter of 2013. Another Board member added that the projects could coincide and share their findings.

The FASB staff clarified that the issue with FIN 48 (uncertain tax positions) is the recognition threshold. One PCC member added that he would like to explore the effective settlement issue at a later date.

The PCC members all agreed to have the staff prepare agenda papers for the following issues:

1. VIE accounting
2. Plain vanilla interest rate swaps
3. Uncertain Tax Positions
4. Separation criteria of intangibles from goodwill as a result of a business combination.

FASB staff will begin working on agenda papers for the four items above and then the PCC will decide which items to add to the agenda and their scopes at its February meeting. The PCC will need a super majority vote to add an item to its agenda. The PCC will determine whether additional outreach should be performed based on the scopes of the issues added to the agenda.

Private Company Decision-Making Framework (PCDMF)

Six Differential Factors

The FASB staff provided a brief overview of the six differential factors in the Invitation to Comment (ITC) on the Private Company Decision-Making Framework. The factors serve as the foundation of the framework and are based on the FASB staff's assessment of differences between the users of private company and public company financial statements. The FASB staff noted that most comment letter respondents agreed with the six differential factors; however, differential factor VI (learning about new financial reporting guidance) was considered by a few respondents to be a subsection of differential factor V (accounting resources).

When asked by the FASB staff whether the PCC members believed that the differential factors identified by the staff were adequate, PCC members said they agreed with the factors with few exceptions (that is, accounting resources). One Board member was unsure whether the six factors were appropriate, accounting resources (factor V) in particular.

Common versus Non-common Users

The PCFRC wanted the document to acknowledge common users (for example, lenders) and non-common users (for example, minority shareholders, vendors, and customers) of private company financial statements (factor I). Non-common users might not have the same level of access to management (factor II) as common users. One Board member commented on the importance of identifying the users of private company financial statements because it would influence how the PCC and the Board make financial reporting decisions for private companies.

One PCC member commented that public company users have a legal right to distributed financial information, whereas private company users do not have any legal rights to financial information. Private company users can ask management for information, but management is not required to distribute to all the users of its financial statements the information given to that inquirer.

One PCC member added that while the majority of the PCC's and the Board's efforts should focus on the primary users of private company financial statements, it is important to keep in mind the non-common users and their level of access to management relative to the common users. One Board member added that if both non-common and common users receive the financial statements of a private company, the difference might be that the common user can

follow up with management about items in the financial statements, whereas non-common users might not have that level of access.

Access to Management

One Board member noted that some comment letter respondents raised significant concerns about access to management. He referenced a comment letter received from a private company preparer organization that argued access to management should not be a differential factor because management has the ability to stall users and auditors. That Board member believes that this is important to consider because the Board and the PCC will be basing decisions on the presumption that users have access to management.

One Board member commented that access to management taken to an extreme would not require any financial statements. Thus, the Board and the PCC should determine what information can be gained through access to management and what the base financial statements should provide. A PCC member added that access to management helps to alleviate the costs of excessive disclosures. In response, another Board member said that the financial statements should retain some level of “general purpose,” especially for those users who do not have a high level of access to management.

The FASB staff clarified that access to management is a *mitigating* factor when considering cost and complexity, rather than the driving factor of relevance.

Accounting Resources

One PCC member commented that accounting resources (factor V) should not be a differential factor. He argued that if a company cannot afford to comply with the accounting regulations, it would need to find some other means of financing because lenders to private companies rely on the financial statements. Another PCC member added that if the company stalls the lender, the lender should make the decision not to loan to that company. He also said that when he has been given financial statements by the company he has always had access to management.

One Board member clarified that accounting resources relates mostly to transition method and effective date and less so to recognition and measurement. The Board member and the PCC members who disagreed initially, voiced more comfort with the factor if that is the case. A Board member stated that it would be useful in the final draft of the PCDMF to clarify which factors had more influence over certain modules so that constituents can see how the Board and the PCC arrived at its decisions. The FASB staff agreed and added that modifying the implications might also be useful.

Merging of Factors V & VI

The FASB staff noted that several comment letter respondents stated that accounting resources and learning about new financial reporting guidance (factors V & VI) should be merged into one

factor. The FASB staff, the Board, and the PCC did not believe that this would result in a significant difference to the framework if the two factors were merged. A Board member mentioned one reason to keep the two separate would be that accounting resources apply more to levels of disclosure, whereas the learning process applies more to effective date.

User Relevance versus Cost and Complexity as the Primary Factor (Most Common Preparer)

The FASB staff noted that some comment letter respondents suggested identifying who the most common preparer of private company financial statements is so that cost and complexity could be assessed (that is, a larger preparer could have a higher cost and complexity threshold than a smaller preparer). When asked by the FASB staff whether the framework should identify most common preparers, most PCC members agreed that relevance to the users should be the primary identifier. One PCC member struggled with the tension between the relevance to users and the cost and complexity concerns of preparers. One Board member said it would be helpful to have a general idea about which preparers would be in the framework.

One PCC member stated that the markets (that is, users) would eventually determine how financial statements should be prepared for very small and very large private companies and that the PCC should focus on the majority of companies in the middle.

The FASB staff clarified that the Board has not made any distinction based on size between a public and a private company in the Definition of Nonpublic Entity project.

All PCC members agreed that user relevance should take priority over cost and complexity concerns.

Recognition and Measurement Module

The FASB staff gave a brief overview of the recognition and measurement module. If the guidance is relevant to users, then the PCC and the Board should consider a practical expedient first and then exceptions/modifications. There is a presumption that industry-specific information is relevant to both public and private companies and, therefore, no differences should be allowed.

The FASB staff noted that some comment letter respondents disagreed with question 1.5(j) concerning the untimely issuance of private company financial statements. The FASB staff also noted that some constituents voiced significant concerns about the industry-specific presumption. Lastly, although the responses relating to it were more diverse, the majority of constituents did not support the “all or nothing” approach.

One PCC member expressed confusion over question 1.5(j). A Board member clarified that perhaps the wording needs to be altered to convey that private companies tend to have a longer lag time between year-end and the issuance of financial statements when compared to public companies. Another PCC member also clarified that the question was more of a characteristic than a determining factor. Some Board members and some PCC members did not think the

question was relevant to recognition and measurement and believed that it would be better suited to other areas of the framework.

Industry-Specific Presumption

One Board member expressed concern about the industry-specific guidance presumption. He observed that the Board does consider industry in its decisions. Another Board member commented that this area is the only area of recognition and measurement in which the framework suggests no modifications/exceptions for private companies. He interpreted industry-specific to mean the core business activities of the company and that the presumption should remain in the framework to provide comparison across private and public companies.

One PCC member commented that if guidance was important enough to be industry-specific, it would always be relevant with respect to recognition and measurement. The PCC user members stated that if the guidance was relevant to the business's core activities, there should not be a difference in recognition and measurement between public and private companies in the same industry. One user added that, at times, he would look at public company comparables in the same industry.

One Board member commented that there did not appear to be any industry-specific issues in the list of topics the PCC might add to its agenda. Her concern was that the PCC and the Board would spend more time debating this issue with respect to the framework than discussing this issue going forward. One PCC member agreed that it should remain a consideration, but did not believe that it would be an issue going forward. He added that if a scenario did happen in which a difference in industry-specific guidance for private companies exists, he would rely on outreach to help make the decision.

One FASB staff member commented that the Board is moving away from industry-specific guidance in the Revenue Recognition project.

One Board member commented that he does not read the industry-specific presumption to be a rule but, instead, a rebuttable presumption, and it is correct the way it is written. One PCC member suggested highlighting in the document that those questions and presumptions are considerations, not rules, for the PCC and the Board to use in making its decisions.

“All or Nothing” Approach

When asked whether the “all or nothing” approach should be required, the PCC user members agreed that while they believe currently that an elective approach would be more appropriate, they would prefer to wait and see what type of modifications and exceptions the PCC and the Board decide on.

Other PCC members did not support the “all or nothing” approach because they think of the exceptions and modifications more as a policy decision that companies would elect instead of

being forced into a “private company GAAP” under which all exceptions and modifications must be taken if a company decides to take a single exception or modification.

One Board member believes that complexity would increase if private companies did not have to elect all of the modifications and/or exceptions. If there are not going to be many differences, he believes that a private company should have to take every modification and/or exception.

Another Board member responded that if a private company is forced to take every modification and exception, then the “all or nothing” approach is effectively a separate set of GAAP, which is not the goal of the PCC or the Board. He added that if the Board and the PCC begin the process with the “all or nothing” approach notion, it will greatly affect the types of modifications and exceptions that will be granted to private companies on recognition and measurement.

Several Board members agreed that as the PCC and the Board promulgate exceptions and modifications for individual standards, the Board and the PCC should decide on a standard-by-standard basis whether some exceptions/modifications should be required jointly or whether applying one modification/exception and not others is acceptable.

All PCC members and most Board members either supported an elective approach, but wanted to wait and see what the differences in recognition and measurement would be, or did not support the “all or nothing” approach.

Disclosure Module

The FASB staff noted that most comment letter respondents agreed with the proposed questions relating to disclosure in the framework. When asked whether the staff appropriately identified the appropriate disclosure areas (paragraph 2.8 of the ITC) for private companies, the PCC and the Board agreed that the questions were appropriate.

Red-flag Approach

The FASB staff noted that most constituents agreed with the red-flag approach, but some were concerned with how the PCC and the Board would apply it. The FASB staff clarified that the red-flag approach was intended to give the user of the financial statements enough information in the financial statements “to raise a red-flag” so that the user can inquire further about an item to management and then make an assessment about the company as opposed to management making that assessment.

One PCC member asked the staff to add clarity to the description of the red-flag approach in the ITC; in particular, that the red-flag approach relates mostly to disclosure as opposed to recognition and measurement.

One Board member questioned the operationality of the Board and the PCC assessing what disclosures would lead a user to ask management for more information. He argued that almost

every disclosure could be eliminated as long as some element of the item is reflected in the financial statements.

Display Module

The FASB staff noted that almost all comment letter respondents agreed with the staff's proposal on the display module. The Board and the PCC did not suggest any changes.

Effective Date Module

The FASB staff noted that most respondents agreed with the staff's effective date guidance. Those who conditionally supported the guidance proposed extending the period to more than one year. After it was clarified that the framework allowed for the consideration of a longer deferral period, the PCC and the Board supported the effective date guidance.

One Board member shared with the PCC that the FASB is currently reaching out to CPE providers to help them better instruct preparers and practitioners about accounting changes so that effective dates and deferral periods are less of an issue going forward.

One Board member stated that extending deferral periods to longer than a year creates more complexity for the user because the user now has to be aware of accounting differences for a longer period.

Transition Module

The staff noted that most comment letter respondents agreed with the transition method guidance in the framework. Those who did not fully support the guidance questioned whether the benchmark should default to a prospective transition method rather than retrospective or some modified form of retrospective transition.

One PCC member commented that private companies are not required to prepare comparative financial statements. The PCC user members stated that the transition method should be on a case-by-case basis because private company users are usually looking forward, not backward, to judge the financial stability of the company. The users also stated that they usually do not require comparative financial statements. When asked by the PCC preparers whether disclosures would be an adequate substitute for financial statement restatement, the PCC users agreed that disclosure or a calculation showing what the outcome would be would be an adequate substitute.

One Board member clarified the meaning of the terms prospective, retrospective, and cumulative effect. The PCC users said they preferred a prospective transition with a cumulative effect adjustment, but also that it would still vary on a case-by-case basis depending on effect of the standard.

Definition of a Nonpublic Entity

Overall, the comment letter respondents support the Board's tentative decisions reached. Those who did not completely support the Board's decisions stated their concern that conduit bond obligors are not included in the private group, that financial institutions are not included in the public company group (because they have a responsibility to the public), and that there is the possibility of convergence with IFRS for Small and Medium-Sized Entities (SMEs).

The staff clarified that the Board's tentative decisions reached are not significantly different from current GAAP. The most significant change is that subsidiaries of a public company would now be considered private.

One PCC member was concerned that the definition of public company included "traded in a public market" instead of "traded on an exchange." That member believes that an exchange is or could be better defined than a public market. The staff responded that a large amount of activity is traded in over-the-counter markets, not on an exchange. The staff plans to identify for the Board the issue of what a public market denotes as a potential follow on issue when the Board revisits the definition of a nonpublic entity.

Another PCC member stated that financial institutions should be included in the public company realm because a public interest exists. He also added, and other PCC members agreed, that he does not feel qualified to make decisions relating to financial institutions. One Board member responded that private financial institutions can have similar transactions to other private companies and that he would be comfortable giving those differences to private financial institutions that participate in the same transactions, particularly when those transactions are not industry-specific.

The Board clarified for the PCC members that when the PCC votes on agenda items, if the PCC is uncomfortable addressing a certain issue, it can defer to the Board to take on the issue.

One PCC member was concerned that the differential factors in the framework are binary in that a company is either private or public. He believes that it should be more of a continuum between private and public companies. Another PCC member believes that the Board, with input from the PCC, should decide now which companies are always public, always private, and those that may be in-between to make the process of deciding which companies are eligible for modifications/exceptions more efficient. A Board member agreed and added that the companies in-between may be different depending on the module of the framework (that is, transition versus recognition and measurement).

Conclusion

The FASB staff will distribute a marked copy of the PCDMF based on the direction provided by members of the PCC and the Board at the PCC's February 6, 2013 meeting.

Selected FASB Projects – PCC discussion with FASB

Going Concern

The staff's objective with this project is to increase consistency in disclosures by providing management with guidance about preparing going concern disclosures. The staff asked PCC members whether they agreed that management should be primarily responsible for the going concern assessment and related disclosures and whether private companies should be afforded any difference from public companies.

One PCC member did not believe that management should be primarily responsible for the going concern assessment. He stated that between the three parties involved (preparers, practitioners, and users), management is the least qualified to make that assessment. He also added that the additional proposed disclosures are similar to those required today by the SEC in the MD&A for public companies. For private companies, this would be a situation in which access to management would take the place of reporting an MD&A. The staff clarified that the disclosures are already required today indirectly through the auditing standards rather than GAAP, but the disclosure considerations included in the auditing standards are interpreted inconsistently.

The PCC users stated that they are already aware that a company is in trouble by looking at the financial statements and that, in their experience, practitioners are usually going to add the footnote if there is a possibility the company will not be able to continue as a going concern because they fear litigation.

One PCC member supported the additional disclosures because he believes that it is a chance for the preparer to state for the users what management is doing to demonstrate its ability to continue as a going concern. He voiced concern about the disclosures occurring 24 months out because firms that are new and are growing will be operating at a deficit and private equity firms are not going to promise cash 24 months out.

Another PCC member also supported management's assessment of a going concern because he believes that the going concern disclosures do not belong in the auditing literature but rather in GAAP because financial statement disclosures are management's responsibility. Because of time constraints, the PCC and the Board will continue the discussion of going concern at a later date.

Revenue Recognition

Because of time constraints, the PCC and the Board will discuss revenue recognition at a later date. The Board will likely meet in January to discuss disclosures, effective date, and transition. The revenue recognition team will reach out to PCC members before the next meeting to receive feedback.