

Heads Up

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Private Matters

Proposed Council to Improve Standard Setting for Private Companies

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On October 4, 2011, the Board of Trustees of the Financial Accounting Foundation (FAF) issued a [proposal](#)¹ to create a council that would work toward improving the accounting standard-setting process for private companies. The proposed council, the Private Company Standards Improvement Council (PCNIC), would establish criteria for determining whether exceptions or modifications to standards would be warranted for private companies. On the basis of those criteria, the PCNIC would propose, deliberate, and vote on specific exceptions or modifications to U.S. GAAP. All proposed changes would be subject to FASB ratification and open to public comment. Comments on the proposal are due to the FAF by January 14, 2012.

Editor's Note: Created in 1972, the FAF is an independent private-sector organization responsible for establishing and improving financial accounting and reporting standards, educating constituents on the application of the standards, overseeing and administering the FASB and the GASB, selecting members of the standard-setting boards, and protecting the independence and integrity of the standard-setting process. Under the watchful eye of the FAF, the FASB and GASB are responsible for establishing U.S. accounting standards for public and private companies, not-for-profit organizations, and state and local governments.

Background

Financial Accounting Foundation — Addressing Challenging Objectives

Since its inception, the FAF has worked toward ensuring that:

- The FASB and GASB develop high-quality accounting standards that provide key, comparable financial statement information to investors, lenders, and other financial statement end-users about companies, not-for-profit organizations, governmental bodies, and other entities required to file financial statements.
- Enacted standards reflect constituent financial information needs and that implementation takes into account relevance, complexity, and costs versus benefits.

¹ *Plan to Establish the Private Company Standards Improvement Council.*

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The FAF's efforts to reconcile these objectives is ongoing, and one of its greatest challenges is addressing the needs of private entities. End-users of public company financial statements often require different information than those of private entity financial statements. In addition, a "one size fits all" standard can also put a strain on private entities, which often lack resources for proper implementation. Further, the proposal notes that "as businesses and business transactions have become increasingly global and [more] complex, . . . the needs of public company and private company users of financial statements have moved further apart," even though capital market demands have increased the importance of maintaining comparability of financial information among dissimilar companies and organizations.

Editor's Note: The FAF Trustees decided that the PCSIC would only focus on private company standard setting matters and would not address those pertaining to not-for-profit organizations. The FAF reasoned that (1) the needs of the users of private company financial statements differ substantially from those of not-for-profit organizations and (2) concerns related to not-for-profit organization financial statements were already being considered by the Not-for-Profit Advisory Committee, a group recently established by the FASB.

Pathway to FAF Trustee Recommendations

In 2006, the FASB created the Private Company Financial Reporting Committee (PCFRC), which consisted of a chairman and 12 members, to give nonpublic entities a voice in the standard-setting process. One of the PCFRC's primary goals was to suggest to the FASB ways to improve standard setting for private companies. In addition, the PCFRC, in conjunction with the FASB, was charged with developing a framework for considering exceptions or modifications to U.S. GAAP for private companies. Three years later, as a result of a nationwide listening tour with various constituents, the FAF concluded that the PCFRC was not meeting its objectives. Many constituents were dissatisfied with the results of the collaboration between the FASB and PCFRC and continued to be concerned about the cost and complexity of standards for nonpublic companies.

In 2010, to address these concerns, the FASB:

- Established a team that would formally solicit input and recommendations from private companies.
- Held a series of roundtable discussions on private company issues.
- Started the development of a framework for identifying instances that might warrant differences in standards for private entities.
- Increased communication and education efforts to update private company constituents of changes in U.S. GAAP.
- Provided a dedicated site for private companies to obtain information about pending standard-setting activities.
- Developed an electronic feedback forum to give private company stakeholders the ability to submit feedback on pending standard-setting activities.
- Made a concerted effort to specifically address private company concerns related to specific standard-setting proposals, including goodwill impairment, revenue recognition, and financial instruments.

In addition, in 2010, the FAF, in conjunction with the AICPA and the National Association of State Boards of Accountancy (NASBA), created the Blue-Ribbon Panel on Standard Setting for Private Companies (see Deloitte's January 31, 2011, [Heads Up](#) on the panel). The panel was charged with assessing the needs of private company financial statement users and making recommendations on the basis of this assessment. In January 2011, the panel submitted a report with its recommendation to the FAF.

In response to the panel's report, in March 2011, the FAF convened a working group of several Trustees and FAF senior staff members to further consider standard setting for nonpublic entities. The working group solicited input from users, practitioners, and preparers of nonpublic entity financial statements; performed a variety of research; and reviewed the feedback on nonpublic entity financial reporting in more than 2,800 unsolicited comment letters.

FAF Conclusions

As a result of the working group's outreach and the blue-ribbon panel's report, the FAF Trustees concluded, in part, that:

- The FASB and PCFRC had not achieved the goal of incorporating the needs of private companies into the standard-setting process.
- A new body, the PCSIC, should be created to replace the PCFRC.
- The PCSIC, in conjunction with the FASB, should (1) develop criteria for determining whether and when exceptions or modifications to U.S. GAAP would be warranted for private companies, (2) use the criteria to review existing U.S. GAAP, and (3) propose exceptions and modifications when applicable.

Detailed Look at the PCSIC

Responsibilities

As part of its responsibility to develop criteria and propose exceptions or modifications (as discussed above), for guidance not currently under active reconsideration by the FASB, the PCSIC would:

- Obtain input from various constituents and deliberate on the nature of the exceptions or modifications that would be required.
- Hold meetings, attended by both PCSIC and FASB members and staff, at which the PCSIC would vote on specific exceptions or modifications that would meet the needs of the end-users of private company financial statements.
- Formally propose changes to existing U.S. GAAP that would be subject to initial FASB ratification and due process, including public comment.
- After a public comment period, publicly redeliberate the proposed exceptions or modifications at meetings attended by both PCSIC and FASB members, update standards as needed, and vote on final changes.
- After an affirmative supermajority vote (i.e., two-thirds of PCSIC members), forward final changes to the FASB for ratification.

For guidance already under active reconsideration by the FASB, the PCSIC would:

- Work closely with FASB members and staff to highlight the impact the proposed guidance would have on private companies.
- Provide recommendations and advice that the FASB should consider during its deliberations that would address private company needs.
- Have the ability to vote or take a position on appropriate treatment for private companies.

Composition

The PCSIC would be overseen by the FAF Trustees and would consist of 11 to 15 members in addition to a chairman. Members would include financial statement users, preparers, and practitioners who have significant experience using, preparing, auditing, compiling, or reviewing private company financial statements. The chairman of the council would be an experienced FASB member who has considerable experience with private company financial reporting matters.

The PCSIC would obtain input from various constituents and deliberate on the nature of the exceptions or modifications that would be required.

To evaluate whether resulting standards have achieved their intended objectives, the FAF would conduct a postimplementation review, in which it would solicit input from private companies and assess the changes made to U.S. GAAP as a result of PCSIC activities.

PCSIC council member nominations would be solicited from various stakeholder groups, and each member would ultimately be appointed by the FAF Trustees. Council members would be appointed for a three-year term and could, on the basis of PCSIC and FASB chairman input, be reappointed for two additional one-year terms for a maximum term of up to five years.

Meetings and Oversight

The PCSIC would meet four to six times each year at the FASB's offices in Norwalk, Connecticut, and meetings would include the participation of FASB members. Like FASB meetings, PCSIC meetings frequently would be open to the public and presented as webcasts. In addition, the PCSIC would update the FAF on its progress. To evaluate whether resulting standards have achieved their intended objectives, the FAF would conduct a postimplementation review, in which it would solicit input from private companies and assess the changes made to U.S. GAAP as a result of PCSIC activities. The FAF Trustees would also review the PCSIC's progress on private company standard setting and make additional changes to the process or structure as needed.

Next Steps

The FAF plans to hold roundtable discussions with a variety of constituents on October 11, 2011, in Chicago and on October 17, 2011, in San Francisco. Observers can preregister on the FASB's Web site to attend the sessions. An audio replay of the discussions will be available on the FASB's Web site shortly after the meetings conclude.

In addition, constituents are encouraged to review the proposal and submit comments to the FAF Trustees by January 14, 2012. After the comment period, the Trustees plan to hold public roundtable meetings to obtain additional information and discuss constituent views on the proposal.

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