



Credit Union National Association

cuna.org

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January 13, 2011

Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Comments on Private Company Accounting Plan

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Financial Accounting Foundation's (Foundation's) proposed plan to establish the Private Company Standards Improvement Council (Council), which would work toward improving the accounting standard-setting process for private (non-public) companies, including credit unions. By way of background, CUNA is the largest credit union advocacy organization in the country, representing approximately 90 percent of our nation's 7,300 state and federal credit unions, which serve about 92 million members. Our comments were developed under the auspices of the CUNA Accounting Subcommittee, which is chaired by Scott Waite, Senior Vice President and Chief Financial Officer of Patelco Credit Union.

CUNA's Comments

We appreciate the Foundation's initiative in addressing the issue of whether improvements are necessary for private entity accounting and, if so, how to best facilitate such improvements. We believe strongly that there is a need for improvements to the accounting standards that private companies must work under on a daily basis. We agree with constituents, as noted in the Foundation's proposed plan, that "complexity" in financial reporting is, in many ways, the real problem for private entities. In regard to the proposed Council, we support the Foundation's general approach to address the concerns raised by private entities, and offer several suggestions for the Foundation to consider.

As proposed, the Council would establish criteria for determining whether exceptions or modifications to standards would be warranted for private companies, such as credit unions. Based on those criteria, the Council would propose, deliberate, and vote on specific exceptions or modifications to U.S. generally accepted accounting principles (GAAP). Any proposed changes



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would be subject to ratification by the Financial Accounting Standards Board (FASB) and open to public comment.

We remind the Foundation as it addresses this issue that credit unions are member-owned, not-for-profit institutions—even though FASB does not include credit unions in its not-for-profit classification category for rulemaking purposes. Similar to other not-for-profits, many credit unions—particularly the smaller ones—have limited staff and resources available to address issues outside of credit unions' primary objective, which is to serve their member-owners. While CUNA believes there is a need for improvements to private entity standards, we urge the Foundation to consider the cost, benefit, and relevancy of such standards.

Overview of Structure and Role of Proposed Council

The Council, jointly with FASB, would develop a set of specific criteria to determine whether and when exceptions or modifications to GAAP are warranted for private companies. Based on those criteria, the Council would identify aspects of existing GAAP that its members believe require exceptions or modifications for private companies.

For those areas of GAAP identified through this process, the Council would obtain input from a broad array of constituents and then deliberate and vote on specific modifications to those standards to ensure they meet the needs of users of private company financial statements. Any proposed changes to existing GAAP would be subject to ratification by FASB and due process, including public comment. Following a two-thirds affirmative vote of the Council, the final changes would be subject to final ratification by FASB.

As proposed, the Council would be comprised of 11 to 15 members in addition to a chair. The Council chair would be a FASB member appointed by the Foundation Board of Trustees, which would also appoint the other Council members. Members would include users, preparers, and practitioners with significant experience using, preparing, and auditing private company financial statements.

The Council would meet four to six times per year at FASB's offices, with the intention that all FASB members would participate. Council meetings would typically be webcast and open to the public. FASB staff would be assigned to support and work closely with the Council on outreach and research projects to leverage the FASB's resources and avoid duplication of efforts.

If the Foundation adopts a Council similar to that proposed, we urge the Foundation to mandate that at least one or two Council members come from the credit union industry in order to represent the unique interests and concerns of credit unions. CUNA can certainly recommend to the Foundation individuals capable of representing the credit union industry on the Council.

As proposed, the chair of the Council would be a member of FASB. We are concerned that having a FASB member chair the Council could result in excessive control by FASB over the Council. To address this concern, we ask the Foundation to consider limiting FASB's membership on the Council to that of a regular (non-chair) member. Alternatively, the Foundation may wish to consider establishing a co-chair structure in which one co-chair could be occupied by a member of FASB, so long as there are appropriate checks and balances in place, such as by enabling the non-FASB co-chair to utilize some sort of a veto authority in certain instances.

In regard to the Council's operations, we ask the Foundation to make all Council meetings open to the public—including via webcast—absent matters that may identify a specific entity and/or are otherwise confidential. We appreciate the series of roundtables the Foundation is currently holding in order to obtain input on the proposed Council and financial reporting for private entities in general. We urge the Foundation to work with FASB and the Council to establish processes that encourage open communication from the public to the Council, and vice-versa. In addition, we strongly support the Foundation's objective to avoid duplication of efforts.

Alternative Approaches to Address Private Company Accounting Standards

The Foundation has proposed the following approach:

- Establish a new body, under the oversight of the Foundation, to identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by FASB and submitted to the public for comment. (*Option 2*)

In arriving at *Option 2*, the Foundation considered several alternative approaches, including:

- Create a new, autonomous, and authoritative standard-setting board for private company issues, under the oversight of the Foundation, as recommended by the Blue-Ribbon Panel on Standard Setting for Private Companies. (*Option 1*)
- Establish a new committee on private company issues that would serve solely in an advisory role to FASB. (*Option 3*)
- Continue to monitor FASB's existing and ongoing initiatives to better serve the needs and interests of private companies. (*Option 4*)

We believe both *Option 3* and *Option 4* would be ineffective at achieving meaningful improvements to private company standards. In fact, FASB has utilized an advisory committee in the past—similar to that described in *Option 3*—to try to understand the concerns of private entities. However, the structure of such a committee as simply an advisor to FASB is inadequate to achieve sufficient improvements.

As stated above, we support the Foundation’s initiative to address possible improvements to private entity standards. However, we do not support the structure and oversight of the Council, as proposed. We believe the proper approach is somewhere between *Option 1* and *Option 2*. The following table outlines the aspects of *Option 1* and *Option 2* that we support and those we oppose and/or have concerns with.

<u>Option 1 – Support</u>	<u>Option 1 – Oppose / Concerns</u>
<ul style="list-style-type: none"> - This option includes authority sufficient to address specific concerns with existing standards. - There is no question that a board established under this option would be autonomous—FASB would not be directly involved in the work of the board. In addition, the board would have the ability to set standards under the Foundation’s oversight. - This approach is consistent with the Blue-Ribbon Panel’s recommendation. - FASB and the Government Accounting Standards Board (GASB) could serve as existing models for creation of a new board under this option. - A new board could ensure each new standard incorporates a cost benefit analysis. 	<ul style="list-style-type: none"> - Possibility that entirely new standards could diverge significantly from existing GAAP. - Similarly, new standards could bring about the concept of “big GAAP” versus “little GAAP.” Standards completely different from existing GAAP would be problematic for a number of reasons, including the potential that the new standards—“little GAAP”—would be considered inferior to GAAP financial statements. - Certain entities may not accept new standards; this could include entities such as a credit union’s creditors. - New standards could be burdensome and costly to understand and implement. - New standards would likely cause confusion, at least initially. - It would likely take years to (1) establish a new board and (2) have that board promulgate new standards. - While not of direct concern to credit unions, a set of private-entity specific standards could effectively prohibit private companies from going public due to the required accounting changes.
<u>Option 2 – Support</u>	<u>Option 2 – Oppose / Concerns</u>
<ul style="list-style-type: none"> - Council could be established and operational within a short timeframe. - Council’s efforts would result in exceptions to and carve outs from existing GAAP; not concerned with the potential for standards completely divergent from GAAP. - FASB would be directly involved through membership on the Council. - FASB and the Foundation will provide 	<ul style="list-style-type: none"> - Council would be unable to actually set standards; it would simply make recommendations to FASB. - Even though the Council would be under the oversight of the Foundation, there would be a lack of autonomy since the Council chair would be a member of FASB.

the Council with resources such as staff with technical and operational expertise.	
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In general, we believe *Option 1*—a new, autonomous standard-setting board—would have adequate tools and flexibility to make necessary changes to and properly tailor standards to the unique structure of private companies. However, we are concerned that such a board could establish an entirely new set of standards that are far divergent from GAAP, which would result in a host of issues and costs. In regard to *Option 2*, the Council would have the sole task of identifying and recommending improvements to standards for private entities. However, we are concerned with the lack of autonomy of the Council and that the Council would simply be making recommendations to FASB for ratification, which could decrease the Council’s ability to bring about meaningful improvements to existing standards.

Other Issues

It is unclear exactly what type of entities would fall within the Foundation’s somewhat generic term, “private companies.” In its proposed plan, the Foundation indicates that “nonpublic entities” includes “privately held companies” and not-for-profit organizations, but does not provide further detail on this terminology. While it is our understanding that credit unions would be considered private/nonpublic entities for purposes of the Foundation’s proposal, we ask the Foundation to consider formally defining “private entities” to include credit unions within such classification.

In addressing private company standards and proposing the Private Company Standards Improvement Council, it is apparent that the Foundation acknowledges that there are aspects of current GAAP that are not necessary or not appropriate as they currently exist when applied to private entities. As mentioned above, the proposed Council would seek to improve private-entity standards by identifying provisions within GAAP that should be modified as they apply to private entities or that should not apply at all to such entities. Also mentioned above, CUNA supports the objective to improve private-entity standards.

We urge the Foundation to ensure that regardless of the form of the body or council that is ultimately established, modifications to GAAP that are made in an effort to “improve” private-entity standards result in standards that are no more complex or burdensome than existing GAAP. As the Foundation is well aware, much of the reporting requirements of GAAP—though applicable to all entities—target the highly complex financial transactions of only a limited segment of reporting entities (i.e., publicly traded companies). We believe, therefore, that all modifications to GAAP intended to improve the standards for private entities should involve simplifying overly complex standards and/or decreasing the reporting burden for unnecessarily burdensome standards.

We agree that many of the (complex) reporting requirements of current GAAP are necessary to ensure adequate and accurate information is reported by public companies as is necessary for investors to make informed decisions regarding the financial health of the company. However, as indicated above, such (complex) reporting requirements are inappropriate for non-public entities, for which the primary user of their financial information is not a public investor—but, in the case of a credit union, its state or federal regulator.

Lastly, we remind the Foundation that the primary concerns credit unions have with current accounting standards are the (1) complexity in reporting and (2) the lack of cost-benefit analyses in the standard-setting process. We urge the Foundation to take the steps necessary to mitigate the burden on smaller entities, particularly when there is no or only minimal resulting benefit.

Thank you for the opportunity to express our views on the Foundation's request for comments on private company accounting standards. If you have any questions about our comments, please do not hesitate to give Senior Vice President and Deputy General Counsel Mary Mitchell Dunn or me a call at (202) 508-6743.

Sincerely,

A handwritten signature in cursive script that reads "Luke Martone". The signature is written in black ink and is positioned above the typed name and title.

Luke Martone
Assistant General Counsel