



October 31, 2011

## Proposed Plan to Establish the Private Company Standards Improvement Council

### EXECUTIVE SUMMARY

- The Financial Accounting Foundation (FAF) has proposed a 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.
- The proposed Council would establish criteria for determining whether exceptions or modifications to standards would be warranted for private companies, such as credit unions. On the basis of those criteria, the Council would propose, deliberate, and vote on specific exceptions or modifications to U.S. generally accepted accounting principles (GAAP). All proposed changes would be subject to ratification by the Financial Accounting Standards Board (FASB) and open to public comment.
- The FAF plans to hold public roundtable discussions following the comment period to obtain information from interested parties regarding the proposed Council.
- The FAF is accepting public comments on the proposed Council until January 14, 2012. **Please send your comments to CUNA by December 23.**

Please send comments to Senior Vice President and Deputy General Counsel [Mary Dunn](#) and Assistant General Counsel [Luke Martone](#), or contact us at (800) 356-9655 ext. 6733. [Click here](#) for the proposed plan.

### BRIEF DESCRIPTION OF THE PROPOSED COUNCIL

#### Authority and Critical Responsibilities

As proposed by the FAF, the Council would have the following critical responsibilities:

- 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, based on the criteria it developed.
- For those areas of GAAP identified through this process that are not already under active reconsideration on FASB's technical agenda, the Council would obtain input from a broad array of constituents and then deliberate and vote, in meetings attended by FASB

members, on specific modifications to those standards to ensure that 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 thorough due process, including public comment.
- Following the public comment period, the Council would publicly re-deliberate the proposed exceptions or modifications at meetings attended by FASB members and then vote on final changes. Changes would have to be approved by two-thirds of Council members. Following an affirmative vote, the final changes would be forwarded to FASB for final ratification.
- For items under active consideration on FASB's technical agenda, the Council would serve as the primary source of advice on appropriate treatment for private companies by working actively and closely with FASB members and staff, and providing advice for consideration by FASB members in their deliberations. In addition, the Council would have the ability to vote to take a position on the appropriate treatment for private companies related to issues under active consideration by FASB.

### Council Membership and Meetings

The Council would be made up of 11 to 15 members in addition to a chairman. The Council chairman, who would be selected and appointed by the FAF Board of Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. Council members also would be selected and appointed by the Trustees. Members would include users, preparers, and practitioners who have significant experience using, preparing, and auditing private company financial statements.

Members would be appointed for a three-year term and could be reappointed, based on input from the Council chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the Council.

The Council would meet four to six times per year at FASB's offices in Norwalk, Connecticut, 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.

### Oversight

During the first three years of operations, the Council would provide periodic in-person reports to a newly created, special-purpose Private Company Review Committee of the FAF Board of Trustees. The Council also would provide quarterly written reports to the full FAF Board of Trustees. Following the three-year period, the oversight responsibilities of the Private Company Review Committee would be transferred to the existing Standard-Setting Process Oversight Committee of the Trustees. Quarterly written reports by the Council to the Trustees also would continue following that transition. In addition to this oversight, the Trustees would conduct an overall assessment of the Council at the end of the three-year period to determine whether its mission is being met and whether further changes to the standard-setting process for private companies would be warranted.

## Alternatives Considered by the FAF

The proposed Council structure involves:

*Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by the FASB and submitted to the public for comment.*

In drafting the proposed plan, the FAF considered several alternative Council structures, including:

- Creating a new, autonomous, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel on Standard Setting for Private Companies.
- Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB.
- Continuing to monitor the FASB's existing and ongoing initiatives to better serve the needs and interests of private companies.

However, the FAF decided against proposing any of these three alternatives based on its conclusion that, creating a separate standard-setting board for private companies would likely lead to the establishment of two separate sets of U.S. accounting standards ("little GAAP" and "big GAAP"), which is not a desired outcome. In addition, the concerns communicated to the FAF about the complexity and relevance of GAAP to private companies appear to involve a small but key group of standards. The FAF concluded that improvements should focus on those standards first.

## Public Roundtable Meetings

The FAF plans to hold public roundtable discussions following the comment period to hear the views of, and obtain information from, interested parties regarding the proposed plan. The FAF plans to seek participants for the meetings that represent a wide variety of constituents (including users, preparers, auditors, and others) to ensure that it receives broad input.

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## **QUESTIONS TO CONSIDER REGARDING THE PROPOSED PLAN**

- 1) Do you support the proposed plan to establish the Private Company Standards Improvement Council? Why or why not?

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2) Do you agree with the proposed structure and oversight of the proposed Council? If not, what specific changes would you recommend to the FAF?

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3) The FAF’s proposed plan includes option ii. below. Which option do you believe is most appropriate and why? Alternatively, do you favor a different approach not included in these options?

- i. Creating a new, autonomous, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel on Standard Setting for Private Companies.
- ii. Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by the FASB and submitted to the public for comment.
- iii. Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB.
- iv. Continuing to monitor the FASB’s existing and ongoing initiatives to better serve the needs and interests of private companies.

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4) Without regard to the Council’s specific structure, what initial concerns or problems do you foresee?

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5) Any other questions or comments.

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*For reference, the following list describes the common constituent concerns raised with the FAF during its public outreach.*

- While some practitioners and preparers expressed support for the formation of a separate board as recommended by the Blue-Ribbon Panel, the view was not widely held. In fact, many of those who initially spoke in support of the creation of a new authoritative board, moved away from that view after hearing concerns of others. Such concerns included the likelihood of confusion, the lack of acceptance of new standards by banks and sureties who expect to see GAAP financial statements, the establishment of a bifurcated profession, a recognition that the formation of a new board and the promulgation of new rules would take years, and a fear that financial statements prepared in accordance to “little GAAP” would be viewed as inferior to “big GAAP” financial statements.
- Many constituents noted that “complexity” in financial reporting is, in many ways, the real problem that concerns the private company community. Complexity, however, affects all entities whether public or private, large or small. There is a general belief that FASB does not do a sufficient job undertaking a cost-benefit analysis before issuing standards. Nor has FASB performed systematic post-implementation reviews to determine whether the standards have achieved their goals. There is a concern that GAAP financial statements sometimes do not properly capture the economics of transactions and the standards are not “faithful to the transaction” and do not reflect the “real economic situation.” Nonetheless, there was an acknowledgement that complex financial transactions often require complex accounting.
- A number of constituents believe that FASB historically has not been attentive to concerns of private companies. Yet, there also was a recognition that private company constituents do not actively participate in the standard-setting process. Several participants suggested that FASB should develop methods to more easily facilitate private company input (recognizing that preparing comment letters can be difficult and time consuming for resource-constrained enterprises).
- Despite these criticisms, most participants believe that recent changes at FASB demonstrate a significant move in the right direction. There are concerns, however, about whether this improvement is sustainable and permanent or dependent on the current board and its interests. To address these concerns, the Trustees will continue to monitor FASB’s efforts and will hold both FASB and the Council accountable for ensuring that the concerns of private company stakeholders are addressed.
- There also is consensus that between six and ten current standards cause most, if not all, of the problems for private companies.
- When speaking with users of private company financial statements, representatives of FAF heard that GAAP financial statements provide a useful and sound starting point for underwriting and investment decision-making. In fact, some said that they are “critical.” But, since lenders and investors have significant access to management and outside accountants, financial statements are neither the only nor the best source of information.