

FINANCIAL ACCOUNTING FOUNDATION
BOARD OF TRUSTEES

**ESTABLISHMENT OF THE
PRIVATE COMPANY COUNCIL**

FINAL REPORT

May 30, 2012 | Norwalk, Connecticut



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FINANCIAL ACCOUNTING FOUNDATION FINAL REPORT ESTABLISHMENT OF THE PRIVATE COMPANY COUNCIL

EXECUTIVE SUMMARY

The Financial Accounting Foundation (FAF) Board of Trustees, after seeking and considering public comment, will establish a new body to improve the process of setting accounting standards for private companies. The new group, the Private Company Council (PCC), will be overseen by the Trustees and will replace the existing Private Company Financial Reporting Committee (PCFRC), following an appropriate transition period.

AUTHORITY AND CRITICAL RESPONSIBILITIES

The PCC will have two principal responsibilities. First, the PCC will determine whether exceptions or modifications to existing non-governmental U.S. Generally Accepted Accounting Principles (U.S. GAAP) are required to address the needs of users of private company financial statements. Second, the PCC will serve as the primary advisory body to the Financial Accounting Standards Board (FASB) on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.

Working jointly, the PCC and the FASB will mutually agree on criteria for determining whether and when exceptions or modifications to U.S. GAAP are warranted for private companies. Using the criteria, the PCC will develop, deliberate, and formally vote on proposed exceptions or modifications to U.S. GAAP. If endorsed by the FASB, the proposed exceptions or modifications will be exposed for public comment. At the conclusion of the public comment process, the PCC will publicly redeliberate the proposed exceptions or modifications and provide them to the FASB for a final decision on endorsement. If the FASB makes a final decision to endorse, the exceptions or modifications will be incorporated into U.S. GAAP.

MEMBERSHIP AND TERMS

The PCC will comprise 9 to 12 members, including a Chair, all of whom will be selected and appointed by the Board of Trustees. The PCC Chair will not be affiliated with the FASB and will have had substantial experience with and exposure to private companies during the course of his or her career. PCC members will include users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements. The Trustees also may appoint one or more members of the PCC as Vice-Chairs.

Nominations for membership on the PCC will be sought from a broad array of interested stakeholders and stakeholder groups. Members will be appointed for a three-year term and may be reappointed for an additional term of two years (for a total of five years). Membership tenure may be staggered for some members to establish an orderly rotation.

The PCC Chair and members will serve without remuneration, but will be reimbursed for out-of-pocket expenses incurred in connection with PCC activities as permitted by FAF policies.

FASB LIAISON AND STAFF SUPPORT

A FASB board member will be assigned as a liaison to the PCC, similar to other FASB group arrangements. FASB technical and administrative staff will be assigned to support and work closely with the PCC to leverage the FASB's resources and avoid duplication of efforts. Dedicated FASB staff will be supplemented with FASB staff with specific expertise, depending on the issues under consideration.

MEETINGS

During its first three years of operation, the PCC will hold at least five meetings each year, with additional meetings if determined necessary by the PCC Chair. Deliberative meetings of the PCC will be open to the public, although the Council may hold closed educational and administrative sessions. Most of the meetings will be held at the FASB's offices in Norwalk, Connecticut, but up to two meetings each year may be held elsewhere, if appropriate and necessary to address travel issues. All FASB members will be expected to attend and participate in all deliberative meetings of the PCC, but closed educational and administrative meetings may be held with or without FASB members present.

PCC AGENDA SETTING AND DUE PROCESS FOR EXISTING U.S. GAAP

The PCC will determine its agenda by a supermajority vote (two-thirds of all sitting members), in consultation with the FASB and with input from stakeholders.

As noted above, the PCC and the FASB, working jointly, first will mutually agree on a set of criteria to decide whether and when exceptions or modifications to U.S. GAAP are warranted to address the needs of users of private company financial statements. Based on the agreed-upon decision-making criteria, the PCC will conduct a review of existing U.S. GAAP and identify standards that it will consider for possible exceptions or modifications. The PCC will develop, deliberate, and vote on proposed exceptions or modifications, which must be approved by a two-thirds vote of all PCC members.

Proposed modifications or exceptions to U.S. GAAP approved by the PCC will be provided to the FASB for a decision on endorsement. If endorsed by a simple majority of FASB members, the proposed modifications will be exposed for public comment. Following receipt of public comment, the PCC will consider changes to the original recommendation and take a final vote. If approved, the final recommendation then will be provided to the FASB for a final decision on endorsement.

If the FASB does not endorse a proposed or final modification or exception, the FASB Chairman will provide to the PCC Chair, within a reasonable period of time, a written document describing the reason(s) for the non-endorsement. The document also will include possible changes for the PCC to consider that could result in a decision by the FASB to endorse. This document will become part of the FASB's public record.

PCC ROLE IN PROJECTS ON FASB AGENDA

For projects under active consideration on the FASB's technical agenda, the PCC is the primary advisory body to the FASB about the implications for private companies. The PCC will work actively and closely with the FASB to provide recommendations for consideration by the FASB during its deliberations. The PCC may vote to reach a consensus about recommendations to the FASB for appropriate treatment for private companies on active FASB projects. Those recommendations will be considered by the FASB in its deliberations, and the FASB will be responsible for documenting, in the basis for conclusions of its proposed and final Accounting Standards Updates, how it separately considered the needs of private companies and the recommendations from the PCC.

OVERSIGHT

The FAF Board of Trustees will create a special-purpose committee of Trustees, the Private Company Review Committee (Review Committee), which will have primary oversight responsibilities for the PCC for its first three years of operation.

The Review Committee will hold both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The Review Committee will be chaired by a Trustee, appointed by the Board of Trustees, who has had substantial experience dealing with private company accounting issues.

The PCC will provide periodic in-person and written reports to the Review Committee. The PCC also will provide quarterly written reports to the full FAF Board of Trustees. Oversight and monitoring activities will be ongoing, and will include monitoring of PCC meetings, among other activities, by members of the Board of Trustees.

FAF TRUSTEES' THREE-YEAR ASSESSMENT

Following its first three years of operation, the FAF Trustees will conduct an overall assessment of the PCC to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted.

BACKGROUND & KEY EVENTS

FOR STANDARD-SETTING FOR PRIVATE COMPANIES

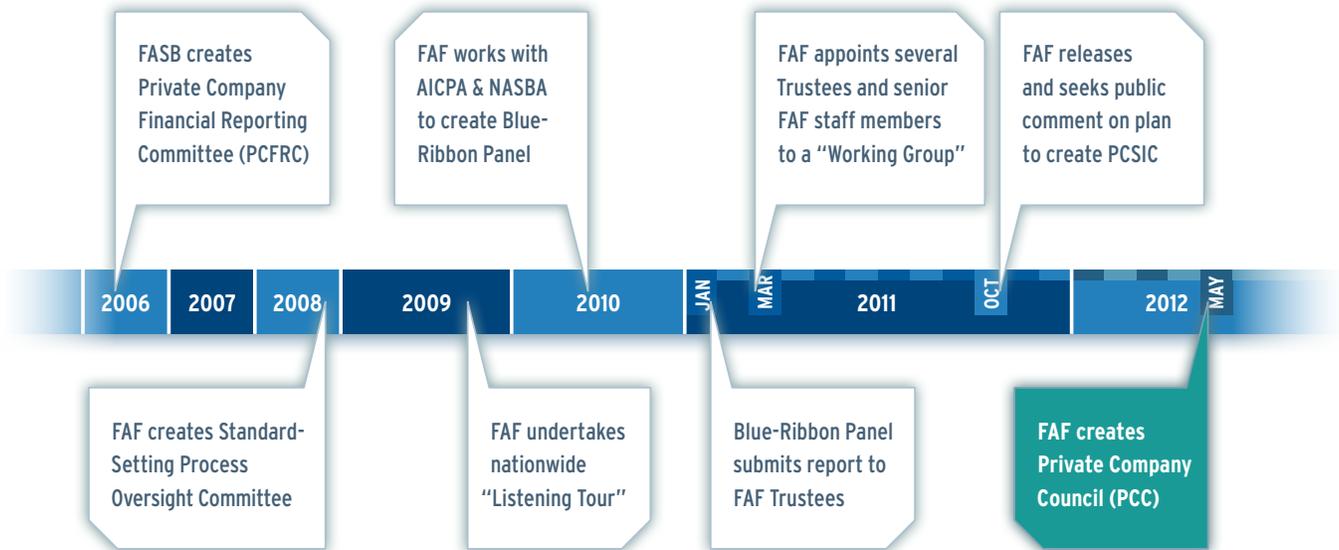
Since it was created in 1972, the Financial Accounting Foundation (FAF) has committed itself to the challenging mission of balancing two critical, but sometimes conflicting, objectives:

- Ensuring that its standard-setting bodies (the FASB and the Governmental Accounting Standards Board (GASB)) develop high-quality accounting standards that provide investors, lenders, and other users of financial statements with clear, comparable, and decision-useful financial information about a wide variety of companies, not-for-profit organizations, governmental bodies, and other entities.
- Ensuring that those standards also take into account the individual needs and circumstances of the constituents of the disparate entities that issue financial statements under U.S. GAAP, specifically related to relevance, complexity, and costs versus benefits.

The ongoing effort to reconcile those two goals has continued for nearly 40 years. One of the greatest challenges has involved the needs of non-public entities, including privately-held companies and not-for-profit organizations. Over the years, no fewer than 12 separate reports, studies, or formal recommendations on issues related to private companies were produced, with varying degrees of impact and success.

In the past ten years, as businesses and business transactions have become increasingly global and complex, some have argued that the needs of public company and private company users of financial statements have moved further apart, even as the demands of capital markets have made it more important to maintain the comparability of financial reporting among disparate companies and organizations.

PRIVATE COMPANY KEY EVENTS TIMELINE



FASB CREATES THE PCFRC

In 2006, the FASB created the Private Company Financial Reporting Committee (PCFRC) in an effort to further improve its ability to incorporate the views of private company constituents in its standard-setting process. Composed of 12 members involved with non-public business entities, regardless of size, the mission of the PCFRC was to provide recommendations to the FASB on issues related to standard setting for private companies and to focus on how standard setting affects day-to-day technical activities at private companies.

THE FAF OVERSIGHT COMMITTEE

In 2008, the FAF created the Standard-Setting Process Oversight Committee, which conducts, on behalf of the Board of Trustees, ongoing oversight and evaluation of the adequacy, transparency, independence, and efficiency of the standard-setting processes employed by the FASB and GASB in establishing and improving financial accounting and reporting standards. The Committee does not interfere with technical standard-setting.

The Committee's key responsibilities are to monitor and evaluate standard-setting processes of the Boards (agenda-setting, deliberations, finalization, implementation), as well as to monitor the progress and efficiency of agenda projects. The Committee also establishes and oversees the post-implementation review of standards, keeps apprised of external influences (international, regulatory, state/local legislation, etc.) and commissions independent studies/surveys.

FAF LISTENING TOUR

In 2009, the FAF Board of Trustees undertook a nationwide "listening tour," during which groups of Trustees and senior FAF leadership met with diverse constituents to hear and understand their views on the independent standard-setting process and key issues affecting financial reporting.

During the tour, the Trustees learned that many constituents continued to be concerned about the cost

and complexity of standards for private companies and not-for-profit organizations and were not satisfied with the results of the collaboration between the FASB and the PCFRC. Among some constituents, there was a belief that the FASB had not been sufficiently responsive to the PCFRC's recommendations and that the PCFRC has not been as effective as it might have been in advocating for the interests of private companies. A major issue cited by constituents was that the FASB and the PCFRC did not develop and agree upon a framework for considering exceptions or modifications to U.S. GAAP for private companies.

BLUE-RIBBON PANEL ON STANDARD SETTING FOR PRIVATE COMPANIES

As a result of these concerns, the Trustees collaborated with the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to create the Blue-Ribbon Panel on Standard Setting for Private Companies. The panel was charged with studying the needs of users of private company financial statements and making recommendations to the Trustees about how the standard-setting process can best meet those needs.

In January 2011, the Blue-Ribbon Panel submitted a report to the Trustees with its recommendations, including, among others, the creation of a new, separate, and authoritative standard-setting board (under the oversight of the Trustees) that would establish exceptions or modifications to U.S. GAAP for private companies.

FASB INITIATIVES TO IMPROVE STANDARD SETTING FOR PRIVATE COMPANIES

Separately, the FASB took additional steps to improve the standard-setting process for private companies. The FASB, for example, assembled a team of professionals focused on soliciting input from private companies; established an ongoing series of roundtables on private company issues; undertook efforts to commence development of a framework for identifying whether and when differences in standards are warranted for private companies; increased

education efforts to help private company constituents become informed about changes in U.S. GAAP; created a dedicated electronic portal on its web site to make it easier for private company stakeholders to access information; developed an electronic feedback form to enable private company stakeholders to more easily comment on FASB proposals; and specifically considered private company concerns in projects related to goodwill impairment, impairment of indefinite-lived intangibles, fair value disclosure, and financial instruments, among others.

THE WORKING GROUP

In March 2011, the FAF appointed several Trustees and senior FAF staff members to a “Working Group” to further consider standard setting for nonpublic entities.

The Working Group received significant input from users, practitioners, and preparers of private company and not-for-profit financial statements. The Working Group also reviewed the current process by which FASB considers the concerns of private companies and not-for-profit organizations. Specifically, the Working Group conducted a series of meetings with stakeholders, including meetings with representatives of large, mid-market, and small CPA firms, all with significant practices serving private companies and not-for-profit organizations.

The Working Group also met with leading members of the academic community who have reviewed and, in some cases, undertaken significant research on issues relating to private company and not-for-profit financial reporting. Representatives of the Working Group also participated in discussions with the FASB’s advisory groups, including the Financial Accounting Standards Advisory Council (FASAC), the PCFRC, the Not-for-Profit Advisory Committee (NAC), and the Small Business Advisory Committee (SBAC).

Representatives of the Working Group had meetings with lenders, investors, regulators, donors, and others. Also, the Working Group considered the content of more than 2,800 unsolicited letters, most of which made similar points in support of the Blue-Ribbon Panel’s recommendation for a separate standard-setting board for private companies.

INITIAL PLAN TO ESTABLISH THE PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL

On October 4, 2011, the FAF released for public comment a plan to create a new council with the authority to identify, propose, and vote on specific improvements to U.S. accounting standards for private companies.

Under the original FAF proposal, a new Private Company Standards Improvement Council (PCSIC) would identify, propose, deliberate, and formally vote on specific exceptions or modifications to existing U.S. GAAP for private companies.

Changes approved by a two-thirds majority would be forwarded to the FASB for ratification. The changes would become final following public comment, further deliberation by the PCSIC and a final decision on ratification by the FASB. The PCSIC would replace the PCFRC, a FASB advisory-only body established in 2006.

The plan reflected not only the judgment of the Trustees, but the views of a broad cross-section of constituents communicated to the FAF during its extensive outreach effort. Under the original plan, the new PCSIC would comprise between 11 and 15 members, appointed by the FAF Trustees, representing investors, lenders, auditors, accountants, and others with broad experience in using, preparing, and auditing (and/or compiling and reviewing) private company financial statements. The chair of the Council would be a member of the FASB who would be appointed by the FAF Trustees. Users, preparers, auditors, and others with an interest in private company financial reporting were encouraged to read the plan and provide the FAF with their comments by January 14, 2012.

FAF SPONSORS A WEBCAST AND A PODCAST

In October and November 2011, the FAF sponsored a podcast and webcast to enable interested parties to learn more about the FAF's proposal to improve accounting standard setting for private companies and to express their views. The live, hour-long webcast, entitled *IN FOCUS: The FAF Plan to Improve Private Company Financial Reporting*, featured Jack Brennan, chairman of the FAF Board of Trustees and Terri Polley, president and CEO of the FAF, who provided an overview of the plan and discussed the importance of stakeholder feedback on its specific provisions. Participants in the live broadcast submitted questions during the event. Concurrently, a podcast interview of Terri Polley, with opening remarks by Jack Brennan, also was featured on the FAF website.

COMMENT LETTERS

The period for submitting written comments on the FAF's Plan to Establish the Private Company Standards Improvement Council ended on January 14, 2012. The FAF received 7,367 comment letters, consisting of 7,069 form letters generally following a template provided by the American Institute of Certified Public Accountants (AICPA), and 298 non-form letters. A breakout of the comment letter respondents is summarized below:

| Type of Respondent | Number |
|--|--------------|
| AICPA Form Letter Submissions | 7,069 |
| Financial Statement Users* | 24* |
| Financial Statement Preparers* | 43* |
| CPA Practitioner Firms | 158 |
| State Societies of CPAs | 18 |
| State Boards of Accountancy | 9 |
| Other Groups and Organizations | 4 |
| Other Individuals (academics, retirees, & unknown types) | 52 |
| Less preparers that also are users* | (10)* |
| Total | 7,367 |

* We received letters from 10 respondents who indicate that they view themselves as both users and preparers of private company financial statements. Thus, for purposes of this categorization, they have been included as both, and then deducted to reconcile to the total number of letters received.

HOSTING ROUNDTABLES

The FAF Board of Trustees held public roundtable meetings after the end of the comment period to hear the views of, and obtain information from, interested parties regarding the plan. The Trustees sought participants representing a wide variety of constituents (including users, preparers, auditors, regulators, academics, and others) to ensure that they received broad input.

The four roundtable discussions were held from January through March 2012 in Atlanta, Georgia; Fort Worth, Texas; Palo Alto, California; and Boston, Massachusetts. The roundtable discussions accommodated more than 60 stakeholder participants who shared their views and comments on the FAF's proposal on private company standard-setting.

KEY ISSUES CONSIDERED BY THE TRUSTEES

ON THE PLAN TO ESTABLISH THE PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL

The FAF conducted extensive outreach to stakeholders based on the proposed “Plan to Establish the Private Company Standards Improvement Council.” Through the podcast, webcast, and roundtables, and the comment letter process, many stakeholders provided input on a variety of issues and components within the plan.

BEHIND THE NUMBERS



Summarized below are the issues and concerns that were most commonly raised by stakeholders during the outreach process in comment letters and meetings with FAF Trustees, and how the FAF Trustees considered their concerns in the final plan.

SEPARATE STANDARD-SETTING BOARD

In the initial proposal, the Trustees recommended the creation of the Private Company Standards Improvement Council, whose decisions on potential exceptions or modifications to U.S. GAAP for private companies would have to be ratified by the FASB.

During the outreach process, Trustees heard from some stakeholders that the original plan did not go far enough, with some continuing to advocate the creation of an independent standard-setting body for private companies whose actions would not require FASB ratification. Many other stakeholders generally agreed with the Trustees’ original plan but offered suggestions for improvement.

The FAF Trustees decided on a process that would involve an endorsement by the FASB in addressing PCC decisions. After considering all feedback, the Trustees decided to:

- Eliminate the requirement that the PCC Chair be a FASB member and instead require the Chair to be independent of the FASB
- Empower the PCC to set its own agenda in consultation with the FASB and stakeholders but without FASB approval

- Enable the PCC to hold educational and administrative sessions without FASB members present
- Establish a FASB endorsement, rather than ratification, process for PCC decisions, to be completed within a specific time frame
- Require the FASB to document, in writing, its reasons for not endorsing a PCC decision and identify modifications that could result in endorsement
- Emphasize the active nature of Trustee monitoring and oversight of the PCC, including the ability of the Trustees to make changes prior to the overall assessment in three years

The Trustees believe that these steps, taken together, provide the PCC with adequate autonomy and would avoid the creation of a “two-GAAP” system that could create confusion, increase costs, and potentially lower the quality of accounting standards.

SIZE OF THE PCC

In the initial proposal, the Council would comprise a chair and 11 to 15 members.

During the outreach process, Trustees heard from stakeholders that the 11 to 15 membership would be too large to coordinate and conduct deliberations, and that a smaller, more “agile” group would be optimal. Many felt that the key to determining the size would be the diversity of the group, ensuring that users, preparers, and practitioners (small and large) are represented well and are able to offer various viewpoints “at the table.”

The FAF Trustees decided that the size of the PCC should be changed to a range of 9 to 12 members, including the Chair, to obtain a breadth of experience and diversity from those who have significant experience using, preparing, and auditing private company financial statements.

COMPOSITION OF THE PCC

In the initial proposal, the Council was to be composed of users, preparers and practitioners with substantial experience using, preparing, and auditing (and/or compiling and reviewing) financial statements.

During the outreach process, Trustees heard from stakeholders that they agreed with the importance of diversifying the group with users, preparers and practitioners and that diversity would be one of the most critical components of the group’s creation. Questions were raised about whether members would represent “themselves” or “their organizations” — with the possibility raised of creating “association seats” with members serving as representatives of their particular association.

The FAF Trustees decided that the PCC should consist of a variety and diversity of users, preparers, and practitioners with substantial experience working with private companies, per the initial plan. The Trustees decided that membership on the PCC will be personal to appointed members, and that functions of members or their attendance at meetings should not be delegated to others. Members will be expected to represent their individual views regardless of employer or association membership affiliations. The Trustees also decided that subject matter experts could be invited to participate in meetings as needed for particular issues, but that the PCC would not have any designated official observer seats. The Trustees also decided that the PCC will replace the Private Company Financial Reporting Committee (PCFRC) following an appropriate transition period.

CHAIR OF THE PCC

In the initial proposal, the Chair of the Council would be selected and appointed by the FAF Trustees and would be a FASB member with substantial experience with and exposure to private companies during his or her career.

During the outreach process, Trustees heard from stakeholders that having a FASB member as the Chair might result in the impression that the group is being controlled by the FASB. That being said, stakeholders believed that the FASB should have an official role within the group to ensure that FASB insights and guidance are provided to specific agenda items.

The FAF Trustees decided that the PCC Chair will not be a member of the FASB, but rather will be an individual external to and independent from the FASB. The Trustees

agreed to appoint a FASB board member as a liaison to the PCC, similar to other successful FASB group arrangements. This structure, the FAF Trustees agreed, will provide the PCC with adequate autonomy while maintaining an appropriate connection to the FASB. The Trustees also may appoint one or more members of the PCC as Vice-Chairs.

APPOINTMENTS AND TERMS OF MEMBERS

In the initial proposal, the group's members would be selected and appointed by the FAF Trustees, and nominations for membership on the PCC would be sought from a broad array of interested constituents and stakeholder groups. Members would be appointed for a three-year term and could be reappointed by the FAF Trustees, with input from the FASB Chairman and the group's chair, for an additional term of two years (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCC.

During the outreach process, Trustees heard from stakeholders that they generally agreed with the original proposal for appointments and terms. Stakeholders also suggested that nominations should be made via the FAF website and requests should be sent to all key stakeholder groups.

The FAF Trustees decided that, in line with the initial proposal, PCC members will be selected and appointed by the Trustees and that nominations for membership on the PCC will be sought from a broad array of interested constituents and stakeholder groups, including a call for nominations on the FAF's website. The PCC's membership will include individuals with backgrounds and experience in preparing, auditing (including compilation and review), and using private company financial statements. Members of the PCC, including the Chair, will demonstrate a keen interest in and knowledge of financial accounting and reporting matters; experience working with private companies; and a commitment to improving financial reporting for users of financial statements.

Members will be recommended for appointment to a three-year term by the FAF Trustees Appointments and Evaluations Committee, with input from the FAF Private

Company Review Committee for initial appointments. Members can be reappointed by the FAF Trustees, with input from the PCC Chair, for an additional term of two years (for a total of five years). Membership tenure will be staggered to assure appropriate continuity on the PCC.

AGENDA SETTING

In the initial proposal, agenda setting was not specifically addressed.

During the outreach process, Trustees heard from stakeholders that, while the FASB needs to be involved in setting the group's agenda, it should not have control of the agenda. Some had the view that the group should set its own agenda, without FASB influence, while most stakeholders believed that the group should set its agenda with input from the FASB and stakeholders.

The FAF Trustees decided that the PCC will set its own agenda by a supermajority vote (two-thirds of all members), in consultation with the FASB and with input from private company stakeholders.

PCC PROCESS AND VOTING FOR EXCEPTIONS OR MODIFICATIONS TO EXISTING U.S. GAAP

In the initial proposal, the Council and the FASB, working jointly, would develop specific criteria for determining whether and when exceptions or modifications to U.S. GAAP are warranted for private companies. Those criteria would be subject to public comment. The Council, using the decision criteria, would develop, deliberate, and formally vote on specific exceptions or modifications to U.S. GAAP. Those exceptions or modifications that were ratified by the FASB would be exposed for public comment. At the conclusion of the comment process, the Council would redeliberate the proposed exceptions or modifications and vote on final changes. Changes would have to be approved by a supermajority (two-thirds) of Council members, then subject to FASB ratification.

During the outreach process, Trustees heard from stakeholders that meaningful change would be very difficult without creation of the decision criteria. Some noted that establishing the criteria will help set expectations about the nature and extent of differences in U.S. GAAP that will result and will assist the FAF in conducting oversight and monitoring the group's effectiveness. Many stakeholders commented on the importance of the group's proposals being issued for public comment, in order to increase the credibility of the process and garner constituent input.

The FAF Trustees decided that the PCC and the FASB should mutually agree on the criteria to decide whether and when exceptions or modifications to U.S. GAAP are warranted for private companies, acknowledging the ongoing efforts underway by the FASB to begin to develop those criteria. The criteria will be subject to public comment before being finalized by the PCC and the FASB.

The FAF Trustees further decided that the PCC will develop, deliberate, and formally vote on proposed exceptions to U.S. GAAP for private companies, using the decision criteria. If endorsed by the FASB, the proposed exceptions or modifications will be exposed for public comment. At the conclusion of the public comment process, the PCC will publicly redeliberate the proposed exceptions or modifications and provide them to the FASB for a final decision on endorsement. If the FASB makes a final decision to endorse, the exceptions or modifications will be incorporated into U.S. GAAP.

ENDORSEMENT PROCESS

In the initial proposal, the FAF Trustees recommended a ratification process whereby a simple majority of the FASB (four of seven members) would ratify any proposed changes to U.S. GAAP for private companies.

During the outreach process, Trustees heard from stakeholders who were concerned that the FASB might exercise too much control over the Council by "vetoing" or "tabling" its decisions. These stakeholders emphasized that the Council and the FASB should work collaboratively toward achieving common goals and making progress on needed changes to U.S. GAAP for private companies.

The FAF Trustees decided on an endorsement process for decisions of the PCC, as follows:

- Under the endorsement process, the PCC would provide proposed and final modifications and exceptions to the FASB.
- The FASB's endorsement process would take place at a public meeting of the FASB as soon as reasonably practicable, with the general presumption that the FASB will act within 60 days from submission.
- If the FASB is unable to act within 60 days, the FASB Chairman will notify the PCC Chair and the Chair of the FAF's Private Company Review Committee in writing as to the reasons for the delay and the date by which the FASB will act.
- A simple majority of FASB members must endorse proposed and final modifications to U.S. GAAP, as required for all other FASB standard-setting decisions.
- If the FASB does not endorse a modification or exception, the FASB Chairman will provide to the PCC Chair, within a reasonable period of time, a written document describing the reasons for non-endorsement. The document also will include possible changes for the PCC to consider that could result in a FASB endorsement. This document will be part of the public record.
- Assuming endorsement, the FASB would issue an Accounting Standards Update describing amendments to the Accounting Standards Codification.

MEETINGS

In the initial proposal, meetings would be scheduled approximately 4 to 6 times a year and held at the FASB's offices in Norwalk, Connecticut. The meetings would be public and all FASB members would attend.

During the outreach process, Trustees heard from stakeholders that the group should have the option to meet without FASB members present and should be able to meet informally in private sessions. Additionally, given that some members may live a significant distance from Norwalk, some of the meetings should be held in other U.S.

locations. Lastly, stakeholders suggested that the Council should meet more frequently than 4-6 times a year.

The FAF Trustees decided that the PCC, during its first three years of operation, will meet for a minimum of 5 times per year, with additional meetings as determined necessary by the PCC Chair. Meetings will be open to the public, with the ability to hold closed educational and administrative sessions if desired.

Most of the meetings will be held at the FASB's offices in Norwalk, Connecticut, with the ability to hold up to two meetings elsewhere, if appropriate and necessary, to ease travel issues for the convenience of PCC members and interested stakeholders.

All FASB members will be expected to attend and participate in the PCC public meetings. The Trustees agreed that participation by FASB members will facilitate their understanding of private company stakeholder perspectives and PCC and FASB members' views, and would enable a more efficient FASB endorsement process. The Trustees decided that meetings of an educational or administrative nature may be held in closed session, with or without FASB members present.

OVERSIGHT

In the initial proposal, the FAF would create a special-purpose committee of Trustees, the Private Company Review Committee (Review Committee), to oversee the activities of the Council and its interactions with the FASB during a three-year transition period.

The Review Committee would hold both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The Review Committee would be chaired by a Trustee, appointed by the FAF Board of Trustees, who has had substantial experience dealing with private company accounting issues. The Council would provide periodic in-person and written reports to the Review Committee. The Council also would provide quarterly written reports to the full FAF Board of Trustees. Following its initial three years of operation, the

FAF Trustees would conduct an overall assessment of the Council to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted.

During the outreach process, Trustees heard from

stakeholders that they supported the concept of Trustee oversight and agreed that FAF monitoring and oversight would be paramount to the success of the Council.

Stakeholders said that the FAF must ensure that the FASB's willingness to collaborate on private company standard setting remains consistent as FASB members change.

The FAF Trustees decided to move forward with the creation of the Private Company Review Committee.

The Review Committee will be chaired by a Trustee who has had substantial experience with and exposure to private companies. The Review Committee would hold both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The PCC will provide periodic in-person and written reports to the Review Committee, as well as quarterly written reports to the full Board of Trustees. The Trustees note that oversight and monitoring activities will be ongoing, and will include monitoring of PCC meetings by members of the Board of Trustees, among other activities. Also in its oversight role, the Trustees decided that the direct input of the PCC should be included in and considered during the FAF post-implementation review (PIR) process.

FAF TRUSTEES' THREE-YEAR ASSESSMENT

In the initial proposal, following the Council's first three years of operation, the FAF Trustees would conduct an overall assessment of the group to determine whether its mission was being met and whether further changes to the standard-setting process for private companies were warranted.

During the outreach process, Trustees heard from

stakeholders that they agreed with the concept of an overall assessment by the Trustees after three years.

Stakeholders also said that FAF oversight should ensure

that the FASB acts on the group’s recommendations in a timely, thoughtful manner. Stakeholders also expressed the strong view that the FAF’s monitoring process should be continuous and transparent, with the ability to make changes if needed before the three-year review proposed in the plan.

The FAF Trustees decided, in line with the initial proposal, that they will conduct an overall assessment of the PCC at the end of three years to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted. The Trustees expect that following the transition period, the oversight responsibilities of the Review Committee would be assumed by the existing Standard-Setting Process Oversight Committee of the Trustees. The Trustees note that, in the interim, if changes to the structure or process of the PCC are needed, they will take timely action as appropriate.

GROUP STAFFING

In the initial proposal, FASB staff would be assigned to support and work closely with the Council on outreach and research projects in order to leverage FASB’s resources and to avoid duplication of efforts.

During the outreach process, Trustees heard from stakeholders that the group’s members will need an adequate level of staff to support the members and help them understand the issues and prepare for meetings.

The FAF Trustees decided that the FASB Technical Director will assign specific members of the FASB’s technical and administrative staff — some of whom will be dedicated, some of whom will be assigned as needed based on their specific technical expertise — to support the PCC. In consultation with the PCC Chair, the FASB Technical Director will identify additional technical staff with specific subject area expertise for particular agenda projects as determined necessary. The assigned staff will, among other duties, perform research and outreach; prepare reference and background materials; analyze and summarize public comments; and otherwise assist and support the PCC. The

Trustees expect that the PCC Chair and members will have a significant level of direct interaction with assigned members of the FASB staff.

OTHER ISSUES

In the initial proposal, compensation was not addressed. Additionally, the group’s name was designated as the “Private Company Standards Improvement Council.”

During the outreach process, Trustees heard from stakeholders that people will willingly make the time for this group, though members will face a large commitment and spend significant time and resources to serve. Some expressed the view that members, particularly the Chair, should receive some form of compensation, such as a stipend or meeting fees. Most stakeholders believed that members should be reimbursed for their out-of-pocket expenses to attend meetings. Stakeholders also commented that the name of the group should be changed to be shorter and more direct. Several stakeholders suggested alternative names for the PCSIC to better reflect its objectives and for ease of reference. Suggestions included the Private Company Council and Private Company Task Force.

The FAF Trustees decided that the PCC Chair and members will serve without remuneration but will be reimbursed for actual out-of-pocket expenses incurred in connection with PCC activities as permitted by FAF policies and as is done for other groups. Lastly, the FAF Trustees decided that the name of the group should be shortened to the “Private Company Council” (PCC).

THE PRIVATE COMPANY COUNCIL

RESPONSIBILITIES & OPERATING PROCEDURES

INTRODUCTION

As a result of outreach to external stakeholders, study, and deliberation, in May 2012, the Financial Accounting Foundation (FAF) Board of Trustees established the Private Company Council (PCC) to improve the Financial Accounting Standards Board (FASB)'s standard-setting process for private companies. The PCC is overseen by the Trustees.

RESPONSIBILITIES OF THE PRIVATE COMPANY COUNCIL

The principal responsibilities of the PCC are as follows:

- The PCC determines, based on criteria mutually agreed to by the PCC and the FASB, whether modifications or exceptions to existing nongovernmental U.S. Generally Accepted Accounting Principles (U.S. GAAP) are required to address the needs of users of private company financial statements. Any proposed changes to existing U.S. GAAP are subject to endorsement by the FASB and undergo thorough due process.
- The PCC serves as the primary advisory body to the FASB on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.

MEMBERSHIP AND TERMS

The PCC comprises 9 to 12 members, including a Chair. Members of the PCC, including the Chair, are appointed by the FAF Trustees. The Trustees also may appoint one or more members of the PCC as Vice-Chairs. The PCC's membership includes individuals with backgrounds and

experience in using, preparing, and auditing (including compilation and review) private company financial statements. Members of the PCC, including the Chair, will demonstrate (1) a keen interest in and knowledge of financial accounting and reporting matters; (2) experience working with private companies; and (3) a commitment to improving financial reporting for users of financial statements.

The PCC Chair will be appointed for such term as the FAF Board of Trustees determine necessary to achieve the objectives of the PCC and allow for an effective transition and continuity of the chair's role. Members of the PCC are appointed for a three-year term and may be reappointed for an additional term of two years (for a total of five years). Membership tenure may be staggered for some members to establish an orderly rotation and maintain appropriate continuity on the PCC. In making reappointments, the FAF Board of Trustees will balance the benefits of periodic rotation with the benefits of stability of membership and consider the contributions of existing PCC members and the expected contributions from potential new members.

The Chair and members of the PCC serve without remuneration, but will be reimbursed for actual out-of-pocket expenses incurred in connection with PCC activities as they may request, provided that those expenses comply with FAF travel and expense reimbursement policies.

ROLES AND RESPONSIBILITIES OF THE PCC CHAIR AND MEMBERS

All members of the PCC, including the Chair, will have a strong appreciation for the importance of independent standard setting for financial accounting and reporting

and be committed to the mission of the FAF and FASB. Members will demonstrate a concern for the public interest and will have an appreciation for the varying interests and perspectives of investors, lenders, and other users of private company financial information and the preparers and auditors of private company financial statements. Members will demonstrate the ability to work collegially and to understand and respect conflicting viewpoints. They will have the ability to consider the evidence on all sides of an issue and analyze it objectively in forming a view.

Members must commit to the time to prepare for and attend meetings of the PCC. They are expected to review related background material prior to meetings and actively participate in discussions. Membership on the PCC is personal to appointed members and functions of members or their attendance at meetings shall not be delegated to others. They are expected to represent their individual views regardless of employer or association membership affiliations.

In addition to the responsibilities that apply to all PCC members, the PCC Chair is responsible for, among other functions, the following:

- Serving as the primary point of contact between the PCC and FASB members and staff; the FAF Board of Trustees; and private company stakeholders
- Managing the PCC agenda, which will be established by super-majority vote of the PCC, in consultation with the FASB, stakeholders, and the other members of the PCC
- Planning and leading PCC meetings
- Implementing and directing the broad operating processes of PCC
- Ensuring due process
- Guiding discussions at PCC meetings to ensure an effective and timely communication of views and conclusions reached by the PCC
- Preparing an annual operating budget
- Providing input to the Trustees on the reappointment process for PCC members

The PCC Chair works cooperatively with the FASB liaison member, the FASB Chairman, and the FASB Technical Director to accomplish the functions of the PCC and to help facilitate the work of the FASB with respect to private company standard-setting activities. The PCC Chair, in consultation with the FASB Technical Director, will assess the level of FASB staff and resources that are necessary to support the PCC and has input in decisions about the deployment, supervision, and evaluation of FASB staff specifically assigned to support the PCC. The PCC Chair is responsible for ensuring that the PCC is prepared to discuss and consider technical and other issues on its agenda in an effective and timely manner.

The PCC Chair is responsible for providing periodic in-person and written reports to the special-purpose Private Company Review Committee of the FAF Board of Trustees. The PCC Chair also will provide quarterly written reports to the full FAF Board of Trustees.

FASB LIAISON

The FAF Trustees will appoint a member of the FASB to serve as a liaison between the FASB and the PCC. The primary purpose of this liaison role is to serve as the main point of contact to facilitate communications and integration between the PCC and the FASB. The FASB liaison is not a member of the PCC.

The FASB liaison and all FASB members are expected to attend and participate in all deliberative meetings of the PCC. Participation by FASB members will facilitate their understanding of private company stakeholder perspectives and PCC members' views, and is expected to enable a more efficient FASB endorsement process. FASB participation also will assist the PCC in considering potential concerns or alternatives raised by FASB members.

FASB STAFF SUPPORT

The FASB Technical Director will assign specific members of the FASB's technical and administrative staff — some of whom will be dedicated, some of whom will be assigned as needed based on their specific technical expertise — to support the PCC. In consultation with the PCC Chair, the

FASB Technical Director will identify additional technical staff with specific subject area expertise for particular agenda projects as determined necessary.

The assigned FASB technical staff will provide assistance and support to the PCC that will include, among other things, the following:

- Performing research and outreach
- Preparing and providing appropriate reference and background materials
- Identifying various stakeholder views
- Developing possible alternatives for consideration in addressing technical issues
- Participating in meeting discussions
- Analyzing and summarizing public comments and other stakeholder input
- Drafting due process documents.

Assigned staff also will provide administrative support to the PCC Chair in organizing meetings, preparing meeting announcements, agendas, materials, minutes, and other public updates, and coordinating any additional PCC activities as determined to be appropriate. The Trustees expect that the PCC Chair and members will have a significant level of direct interaction with assigned members of the FASB staff.

MEETINGS

During its first three years of operation, the PCC will meet regularly, at least five times each year, with additional meetings held as the PCC Chair determines necessary for the PCC to effectively and efficiently perform its functions. Two-thirds of the members of the PCC constitute a quorum for purposes of conducting a deliberative meeting of the PCC. All deliberative meetings of the PCC are open to the public. Meetings of an educational (non-deliberative) or administrative nature may be held in closed session. The PCC Chair has the discretion to hold closed educational and administrative meetings without any FASB members

present. No more than three FASB members may attend closed educational or administrative meetings of the PCC that address technical matters.

Generally, PCC meetings will be held at the FASB's offices in Norwalk, Connecticut. If necessary, and subject to a determination by the PCC Chair, one or more PCC members may participate by telephone or other electronic means. The PCC Chair may elect to hold up to two meetings per year in other locations, if appropriate and necessary to ease travel issues for the convenience of PCC members and interested stakeholders.

The time, date, and location of each PCC meeting, the agenda for the meeting, and the extent (if any) to which the meeting is to be closed to public observation, will be publicly announced on the FASB website.

As deemed necessary, the PCC Chair may invite nonvoting observers to participate in meetings of the PCC to provide relevant input or expertise to the discussion of particular issues. These observers may include representatives from trade groups, regulators, or other individuals who possess relevant experience with a particular topic being deliberated.

PCC AGENDA

Based on the decision-making criteria, the PCC will determine its agenda via a supermajority vote of its membership, in consultation with the FASB and with input from stakeholders. A supermajority (defined as two-thirds of all sitting PCC members) must approve any additions or significant modifications to its agenda during a public meeting.

It is anticipated that the PCC initially will focus on evaluating existing U.S. GAAP to identify standards that may require modifications or exceptions to address the needs of users of private company financial statements. Because a significant role of the PCC is to advise the FASB on projects under active consideration by the FASB, the PCC will refrain from adding separate (competing) projects to its agenda that already are under such consideration by the FASB.

PCC PROCESS AND VOTING FOR EXCEPTIONS OR MODIFICATIONS TO EXISTING U.S. GAAP

Applying the criteria included in the decision-making framework, the PCC will develop, deliberate, and formally vote on proposed exceptions to U.S. GAAP for private companies, using the decision criteria.

The PCC will take the following steps in reviewing and proposing exceptions or modifications to U.S. GAAP to address the needs of users of private company financial statements:

- Conduct a review of existing U.S. GAAP.
- Identify standards that require reconsideration. ,
- Develop, deliberate and vote on proposed exceptions or modifications, to be approved by a supermajority vote of PCC members (two-thirds of all PCC members).
- Provide to the FASB for endorsement any proposed exceptions or modifications to U.S. GAAP approved by the PCC.
- Expose for public comment any proposed exceptions or modifications endorsed by the FASB.
- Redeliberate the proposed modifications or exceptions, taking into account stakeholder comments and other input received.
- Vote on the final changes. Final exceptions or modifications must be approved by a supermajority vote of PCC members (two-thirds of all PCC members).
- Provide the final exceptions or modifications to the FASB for final endorsement in order to issue a final Accounting Standards Update (ASU).

PCC ROLE IN PROJECTS ON FASB AGENDA

For projects under active consideration on the FASB's technical agenda, the PCC is the primary advisory body to the FASB about the implications for private companies. The PCC will work actively and closely with the FASB to provide recommendations for consideration by the

FASB during its deliberations. The PCC may vote to reach a consensus about recommendations to the FASB for appropriate treatment for private companies on active FASB projects. Those recommendations will be considered by the FASB in its deliberations, and the FASB will be responsible for documenting, in the basis for conclusions of its proposed and final Accounting Standards Updates, how it separately considered the needs of private companies and the recommendations from the PCC.

FASB ENDORSEMENT PROCESS

Under the endorsement process, the PCC will provide proposed and final exceptions or modifications to existing U.S. GAAP to the FASB for endorsement.

A majority (four out of seven) of FASB members must endorse proposed and final modifications or exceptions to U.S. GAAP prior to issuing a proposed or final ASU (respectively).

The endorsement process will take place at a public meeting of the FASB as soon as reasonably practicable, with the general presumption that the FASB will act within 60 days from when the proposed or final modification or exception was provided to the FASB for endorsement. If the FASB is unable to act within 60 days, the FASB Chairman will notify the PCC Chair and the Chairman of the FAF's Private Company Review Committee in writing as to the reasons for the delay and the date by which the FASB will act.

If the FASB does not endorse a proposed or final modification or exception, the FASB Chairman will provide to the PCC Chair, within a reasonable period of time, a written document describing the reason(s) for the non-endorsement. The document also will include possible changes for the PCC to consider that could result in a decision by the FASB to endorse. This document will become part of the FASB's public record.

In the event that the FASB endorses a proposed or final modification or exception, but one or more FASB members dissent, then the dissenting view(s) will be documented in the proposed or final ASU.

Assuming final endorsement, the FASB will issue an Accounting Standards Update describing amendments to the Accounting Standards Codification.

Given the active participation of FASB members at meetings of the PCC, it is expected that if one or more FASB members have concerns about PCC proposed modifications or exceptions to U.S. GAAP, those FASB members will raise those concerns at the appropriate point during the PCC deliberations, so that those views become known and are discussed.

BUDGET

On an annual basis, the PCC Chair, in consultation with the FASB Chairman, FASB Technical Director, and the FAF Director of Finance, will prepare a proposed operating budget for the PCC's expected activities for the following calendar year. The budget will include expected travel, meeting, and related expenses, and an allocable share of dedicated and shared staff compensation and benefits. In preparing the budget, the PCC Chair will consider the PCC's agenda of projects with a reasonable expectation of workloads and staffing levels. The PCC's budget will be prepared in accordance with the annual budget planning schedule and procedures of the FAF. The PCC's budget will be subject to review and approval by the FAF Board of Trustees as a component of the FASB's annual operating budget.

OVERSIGHT

The FAF Board of Trustees will create a special-purpose committee, the Private Company Review Committee (Review Committee), which will have primary oversight responsibility for the PCC for an initial three-year period.

The Review Committee will hold both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The Review Committee will be chaired by a Trustee, appointed by the Board, who has had substantial experience dealing with private company accounting issues.

The PCC will provide periodic in-person and written reports to the Review Committee. The PCC also will provide quarterly written reports to the full FAF Board of Trustees. Oversight and monitoring activities will be ongoing, and will include monitoring of PCC meetings, among other activities, by members of the Board of Trustees. Following the PCC's first three years of operation, it is expected that the responsibilities of the Review Committee would be assumed by the existing Standard-Setting Process Oversight Committee of the Trustees.

FAF TRUSTEES' THREE-YEAR ASSESSMENT

Following its initial three years of operation, the FAF Trustees will conduct an overall assessment of the PCC to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted.

AMENDMENTS TO OPERATING PROCEDURES

On the recommendation of the PCC Chair (following consultation with the PCC members and the FASB Chairman), the FAF Board of Trustees may, from time to time, alter or amend these operating procedures.

APPENDIX I

SUMMARY OF COMMENT LETTERS

OVERVIEW

1. On October 4, 2011, The Financial Accounting Foundation (FAF) Board of Trustees issued a request for comment on its *Plan to Establish the Private Company Standards Improvement Council* (PCSIC). The comment period ended on January 14, 2012. The plan, an executive summary, the comment letters received, and other related information may be accessed at the following weblink: <http://www.accountingfoundation.org/cs/ContentServer?site=Foundation&c=Page&pageName=Foundation%2FPage%2FFAFSectionPage&id=1176158985794>.
2. As of March 9, 2012, the FAF had received 7,367 comment letters, consisting of 7,069 form letters generally following a template provided by the American Institute of Certified Public Accountants (AICPA), and 298 non-form letters.
3. A breakout of the comment letter respondents is summarized below:

| Type of Respondent | Number |
|--|--------------|
| AICPA Form Letter Submissions | 7,069 |
| Financial Statement Users* | 24* |
| Financial Statement Preparers* | 43* |
| CPA Practitioner Firms | 158 |
| State Societies of CPAs | 18 |
| State Boards of Accountancy | 9 |
| Other Groups and Organizations | 4 |
| Other Individuals (academics, retirees, & unknown types) | 52 |
| Less preparers that also are users* | (10)* |
| Total | 7,367 |

* We received letters from 10 respondents who indicate that they view themselves as both users and preparers of private company financial statements. Thus, for purposes of this categorization, they have been included as both, and then deducted to reconcile to the total number of letters received.

RESPONDENT PROFILE

4. Substantially all of the form letters were received from individual certified public accountants (CPAs). The form letters communicated the view that the proposed PCSIC does not solve the problems with standard setting for private companies because of the requirement for the Financial Accounting Standards Board (FASB) to ratify any modifications suggested by the PCSIC.

OVERVIEW OF NON-FORM LETTER COMMENTS RECEIVED

5. The remainder of this comment letter summary focuses on the comments included in the 298 non-form letter submissions. For purposes of this analysis, respondents who are described as **opposing** the FAF's overall plan hold the view that a separate standard-setting body, independent of the FASB, should set accounting standards for private companies. Respondents who are described as **supporting** the FAF's overall plan agree with the formation of the PCSIC to work closely with the FASB to improve the standard-setting process for private companies. Respondents, whether they supported or opposed the overall plan, had varying views on the details of the plan. Not all respondents commented on every issue in the plan.
6. The aspects of the FAF's plan that most respondents addressed include (a) the FASB ratification process, (b) the private company decision-making framework, (c) the role of the PCSIC chair role, and (d) the FAF oversight and monitoring process. Each of those topics

is addressed in further detail later in this memo. We also provide a summary of respondents' views on other aspects of the plan, such as the size of the PCSIC, meeting-related issues, and other matters.

7. Overall, approximately 63 percent of the respondents oppose the FAF's plan; 29 percent support the plan. The remaining eight percent of respondents either (a) indicated that there should be no differences in financial statement reporting between private companies and public companies, (b) stated that significant structural changes are not necessary to improve private company standard setting, or (c) did not express a definitive opinion about the plan.
8. Approximately 70 percent of financial statement users support the plan; 12 percent oppose it; and 18 percent are neither supportive nor opposed. Approximately 50 percent of financial statement preparers support the plan; 35 percent oppose it; and 15 percent are neither supportive nor opposed. Most of the large industry and trade groups and associations, including those that represent financial statement users and preparers, support the plan.
9. Excluding the 9 largest CPA firms, approximately 80 percent of the respondents from CPA firms oppose the plan. In several instances, multiple practitioners from the same firm provided identical or similar comment letters. (Each of those letters is counted individually). Of the largest CPA firms that responded, six of the nine firms support the plan, two oppose it, and one did not express a definitive opinion.
10. Of the state boards of accountancy, seven of nine support the plan. Of the 18 state societies of CPAs, 12 oppose the plan. Two of the four other groups and organizations support the plan. Approximately 63 percent of all other individual respondents, such as academics and retirees oppose the plan, while 29 percent support it, and 8 percent neither are supportive nor opposed.

SUMMARY COMMENTS FROM PLAN OPPONENTS

11. Generally, respondents who are opposed to the FAF plan indicate that it does not sufficiently address the significant changes that are necessary to improve the standard-setting process for private companies. Some respondents referred to the recommendations of the Blue-Ribbon Panel on Standard Setting for Private Companies and questioned why the FAF did not accept the Panel's recommendation to establish a separate standard-setting body.
12. Those who believe a separate independent standard-setting body is necessary stated the following reasons:
 - (a) Skepticism that the PCSIC could achieve its objectives because the FASB historically has not recognized and responded to the needs of private companies and their financial statement users.
 - (b) Too much FASB dominance over the PCSIC, which may hinder the PCSIC's ability to execute meaningful changes.
 - (c) Some FASB members may not appear to have an adequate understanding of private company issues and challenges.
 - (d) Inherent difficulties for the FASB to reverse decisions previously reached for public companies when determining whether there should be differences for private companies.
13. Among the respondents, primarily CPA practitioners from local and regional firms, the following views and concerns also were expressed:
 - (a) Frustration with the FASB's past and current standard-setting process for private companies.
 - (b) The cost and complexity of some accounting standards.
 - (c) The lack of relevance of particular standards to some users of private company financial statements.

- (d) The FASB is too focused on public companies.
 - (e) The PCSIC as proposed will be too similar in nature to the FASB's Private Company Financial Reporting Committee (PCFRC), which they observe did not accomplish its objectives as originally intended.
 - (f) Neither the FASB nor the FAF Board of Trustees having enough members with private company experience.
 - (g) The FASB not having adequate time to devote to private company standard-setting activities due to other priorities (such as convergence of international standards); therefore, a separate standard-setting body will be more responsive.
- 14.** With respect to potentially having two sets of U.S. GAAP result from a separate board, some respondents are not concerned because:
- (a) Financial reporting differences already exist for private companies and public companies under U.S. GAAP and there are incremental financial statement reporting requirements for companies registered with the U.S. Securities and Exchange Commission (SEC).
 - (b) A significant number of private companies prepare financial statements with departures from one or more accounting standards, which result in qualified audit opinions.
 - (c) Private companies currently are permitted to prepare financial statements using IFRS, *IFRS for Small and Medium-sized Entities* (IFRS for SMEs), or an other comprehensive basis of accounting (OCBOA).
- 15.** The majority of those that support creation of the PCSIC stated that a separate standard-setting body is not necessary because of:
- (a) The likelihood that significant differences in standards for private and public companies will lead to two separate sets of accounting standards and dilute the quality, comparability, consistency, and reputation of U.S. GAAP.
 - (b) The redundancies (and higher costs) that will be created by a separate standard-setting body, given that the FASB already has the appropriate structure and due process in place.
 - (c) The plan strikes the right balance of interaction between the FASB and the PCSIC and provides for adequate oversight and monitoring by the FAF.
- 16.** Respondents also expressed confidence about the success of the PCSIC because of:
- (a) The checks and balances that are incorporated into the proposed structure and processes.
 - (b) The creation of the private company decision-making framework that will be mutually agreed upon by the FASB and PCSIC.
 - (c) The close collaboration between the FASB and PCSIC throughout the deliberations process.
 - (d) The robust oversight and monitoring to be conducted by the FAF.
- 17.** Respondents acknowledged the various process and staffing improvements made by the FASB and FAF to improve the private company standard-setting process and several stated that the creation of the PCSIC will result in a continuation of those improvements. A few respondents stated that the FASB's involvement with the PCSIC also may benefit the FASB's public company standard-setting activities.
- 18.** Many respondents that support the plan indicated that the PCSIC is a significant improvement over the FASB's current processes because it represents a reasonable and effective compromise for developing sustainable improvements without making fundamental structural changes to the standard-

SUMMARY COMMENTS FROM PLAN SUPPORTERS

setting process. Some respondents that support the creation of the PCSIC provided suggestions to mitigate their concerns about some aspects of the plan, particularly those relating to the PCSIC's authority and autonomy, which are addressed later in this memo.

COMMENTS ABOUT SPECIFIC PLAN ASPECTS

The FASB Ratification Process

- 19.** The proposed ratification process was the most commonly raised concern about the FAF's plan. Respondents that oppose the proposed ratification process expressed the following views:
- (a) The FASB may frequently veto decisions reached by the PCSIC because of the considerations explained above in paragraphs 12(a)–12(d).
 - (b) A ratification process is unnecessary because of the existence of the agreed-upon decision-making framework; the requirement for FASB members to attend all PCSIC meetings; the PCSIC being chaired by a FASB member; the requirement for a supermajority vote of PCSIC members to reach a conclusion; and the FAF monitoring and oversight process.
- 20.** Several respondents suggested having a FASB veto process instead of a ratification process. Some of those respondents suggested that a supermajority or unanimous vote by FASB members should be required to veto a conclusion reached by the PCSIC, thus appropriately establishing the presumption of a high hurdle for a FASB veto.
- 21.** Respondents that support the ratification process expressed the following views:
- (a) A ratification process appropriately retains the FASB as the sole authoritative accounting standard setter in the United States.
 - (b) The proposed ratification process is consistent with that of the FASB's Emerging Issues Task Force (EITF).

- (c) The PCSIC should not have greater authority than other groups, such as the EITF or FASB advisory groups.

- 22.** Some respondents suggested that a time limit be established within which the FASB must vote to ratify PCSIC conclusions to ensure that the FASB addresses ratification in a timely manner.

Private Company Decision-Making Framework

- 23.** On the issue of the private company decision-making framework, respondents expressed the following views:
- (a) Without the framework, meaningful change by the PCSIC will be very difficult.
 - (b) Differences in financial reporting, particularly in recognition and measurement, should be permitted in a measured and judicious manner that will best be accomplished through development of a robust framework.
 - (c) Establishing mutually agreed upon criteria will help set expectations about the nature and extent of differences in U.S. GAAP that will be permitted; reduce differences of opinion between the PCSIC and the FASB; and assist the FAF Trustees in conducting their oversight and monitoring of the PCSIC's decisions reached, overall effectiveness, and interactions with the FASB.
 - (d) The proposed framework should be exposed for public comment.
 - (e) The International Accounting Standards Board's (IASB) IFRS for SMEs should be used instead of developing a new framework. Not incorporating IFRS for SMEs or not using a similar approach for U.S. private companies could lead to further divergence with the IASB.

Role of PCSIC Chair

24. With respect to the chair of the PCSIC, respondents expressed the following views:

- (a) Those opposed to having a FASB member as chair had concerns about the FASB having too much control and influence, including on the PCSIC's agenda-setting process, thereby impeding the PCSIC's ability to make progress. Suggested alternatives included having a PCSIC chair that is independent of the FASB or having a FASB member and a PCSIC member as co-chairs.
- (b) Those in support of a FASB member as chair commented that having a FASB member chair the PCSIC demonstrates the level of commitment and collaboration necessary for the PCSIC to achieve the most success.

FAF Oversight and Monitoring Process

25. With respect to the FAF's oversight and monitoring of the PCSIC, respondents expressed the following views:

- (a) The oversight process is fundamental to the success of the plan.
- (b) The monitoring process should be continual and transparent; the FAF should not wait until the end of the proposed three-year evaluation period to formally assess or report on the effectiveness of the PCSIC.
- (c) The FASB's commitment to the PCSIC may diminish over time or the willingness of the FASB to collaborate with the PCSIC could decrease as FASB members change.
- (d) The FAF should develop measurable performance objectives to evaluate the effectiveness of the PCSIC.

Size of the PCSIC

26. On the issue of the size of the PCSIC, respondents expressed the following views:

- (a) Suggestions for the size of the PCSIC ranged from as few as 7 members to as many as 15 members, with the most commonly provided suggestion being between 7 to 11 members.
- (b) Some respondents stated that the size of the PCSIC as proposed (11 to 15 members) is too large to coordinate and conduct deliberations.
- (c) Other respondents stated that a larger group has the benefit of having more viewpoints at the table.
- (d) In addition, a few respondents suggested that a private company advisory group, such as the PCFRC, should remain in place to provide additional perspectives and input about private company financial reporting so that the PCSIC and FASB can reach better informed conclusions.

Aspects of PCSIC Meetings

27. On the issue of having all FASB members attend each PCSIC meeting, respondents expressed the following views:

- (a) Some respondents oppose having all FASB members attend the meetings because of concerns about FASB dominance.
- (b) Other respondents support having the FASB members in attendance because it will foster collaboration through the timely sharing of recommendations and concerns.
- (c) Some respondents expressed the view that the PCSIC should have the option to meet without FASB members present and should be able to meet informally in nonpublic meetings as the PCSIC determines necessary.

28. On the issue of frequency and location of meetings, respondents expressed the following views:

- (a) Most respondents stated that four to six meetings per year will be inadequate for the PCSIC to effectively and efficiently accomplish its objectives, particularly during its inception.

- (b) Some respondents suggested holding some PCSIC meetings in locations other than the FASB offices in Norwalk, Connecticut, for the convenience of PCSIC members and meeting attendees.

Other Comments

- 29. Respondents commented on various other matters related to the plan.
- 30. Several respondents commented about the importance of defining what constitutes a private company for standard-setting purposes.
- 31. On the issue of differences between public and private company standards, respondents expressed the following views:
 - (a) There should be no differences or limited differences in recognition and measurement guidance.
 - (b) Differences should be limited to disclosures, effective dates, and the use of practical expedients when evaluating differences in recognition or measurement.
 - (c) Challenges may result from significant differences including effects on education and career mobility, a lack of comparability for financial statement users, the effects on loan covenants, other agreements, and regulatory reporting requirements, and implications for companies entering the public capital markets.
- 32. Several respondents stated that the FASB should focus on reducing the cost and complexity of U.S. GAAP for all entities, not only private companies, and that the issues being debated are more indicative of the challenges faced by smaller companies, both public and private. Respondents suggested that a cost-benefit framework be developed to evaluate all new standards for both private companies and public companies and that more field testing should be conducted before finalizing new standards to better assess the operationality and relevance of proposed changes to U.S. GAAP.
- 33. Several respondents suggested that U.S. GAAP should be structured so that there is one baseline set of standards coupled with additional requirements for entities that file with the SEC.
- 34. Several respondents acknowledged the need for private company stakeholders to increase their awareness of, and involvement in, the standard-setting process.
- 35. Several respondents stated that the FAF should reimburse PCSIC members for their out-of-pocket expenses incurred to attend meetings. Some respondents stated that PCSIC members should be compensated because of the expected time commitment and the limited resources of many private company stakeholders.
- 36. Several respondents commented that the FASB will need to provide an adequate level of staff support for PCSIC members and activities. Some respondents suggested that PCSIC staff should report directly to the FAF so that they are independent of the FASB.
- 37. Several respondents suggested alternative names for the PCSIC to better reflect its objectives and for ease of reference. Suggestions included the Private Company Council or Private Company Task Force.

APPENDIX II

SUMMARY OF ROUNDTABLES

JANUARY 18, 2012 / ATLANTA, GEORGIA

OVERALL REACTIONS TO THE FAF PCSIC PROPOSAL

Most participants generally were in favor of the FAF plan to create the PCSIC. Those who supported the plan said they believed:

- It is important to maintain consistency and transparency in standard setting.
- A “two GAAP” system could result in a lack of comparability in financial reporting.
- The FASB is an established, trusted group, and therefore should retain ultimate standard-setting authority.
- The movement toward international convergence may make the issue of a second standard setter moot.
- It would be difficult to secure funding for a whole new standard-setting board.
- It would be inefficient to create another standard-setting board when there are only a handful of “problem” standards that need to be addressed.

On the other hand, some aspects of the PCSIC plan caused concern among participants, including the FASB’s ratification power over PCSIC decisions and the need for better integration between the FASB and the PCSIC.

A few supported creating a separate, authoritative standard setting board, saying it would be more efficient and responsive, and that private companies have a big cost burden to bear in trying to implement standards meant for public companies.

TOPIC 1: STRUCTURE OF THE PROPOSED PCSIC

Formation and Membership

In general, most participants thought that 11 to 15 PCSIC members would be too many. They said 9 or 10 would be ideal. Some felt that the key to determining size would be the diversity of the group. For example, having one person represent “banking” would be difficult, because “banking” comprises many different constituencies. Others suggested that size depends on the Council’s function: if it sets standards, it should be smaller (7 to 9 members). If it is an advisory group, it should be larger to allow for more diverse representation.

Views were mixed on whether the PCSIC should be composed of individual members or representatives of professional associations. Those who opposed trade association representation were concerned about “other agendas” that association representatives might bring to the table. They also were concerned that “associations are one level removed from practice.” Others disagreed, saying that many associations represent individuals who don’t have the bandwidth to represent themselves, and that not all associations are created equal. Those who supported association membership, though, felt that the PCSIC membership should not consist entirely of association representatives. Those on both sides of the issue felt that it would be important for the FAF to be able to explain how and why specific individuals are appointed to the council, making it clear what qualifications are needed, etc. Other issues to consider in appointing council members would be diversity of views, ability to participate regularly in meetings, and willingness to make the required time commitment.

Many roundtable participants expressed concern about the proposal to have a FASB member chair the PCSIC. These participants felt it would give the FASB too much power over the PCSIC. Some also expressed the view that chairing the PCSIC would be a full time job, and thus unrealistic to have a FASB member as chair. The few who felt a FASB member should chair said his/her insights on various projects would be helpful to the PCSIC. Still others suggested that a FASB member co-chair the PCSIC with a non-FASB PCSIC member.

Some participants said the FAF should consider appointing external subgroups (such as resource groups) to assist the council and spread out its workload. Others agreed such support would be helpful.

Meetings

Most participants believe that 4 to 6 PCSIC meetings per year is about the right amount. However, several felt that, at least in the beginning, the Council should meet more frequently as it works to get up and running and address the backlog of issues.

Participants agreed that FASB involvement in the PCSIC and participation in its meetings is essential to its success in terms of commitment and cooperation. Some felt that the PCSIC should also have the flexibility to meet without the FASB, but noted that could be one of the nuances of the plan that would be worked out over time.

FAF Oversight & Monitoring

Participants supported the proposed oversight structure of the PCSIC—where a special purpose FAF oversight committee would monitor the council’s progress for the first three years, then transition its role to the standing Trustee oversight committee—but felt the Trustees should evaluate progress more frequently than once every three years. They said that FAF oversight would add value and credibility to the process. Participants also stressed the need for the FAF to set benchmarks for the Council’s success.

TOPIC 2: AUTHORITY AND CRITICAL RESPONSIBILITIES OF THE PROPOSED PCSIC

Decision Framework

Most participants said that the establishment of a decision-making framework would be critical to the PCSIC’s success. Without a framework, the PCSIC could just structure its votes to throw out the “problem” standards (like FIN 46R). Transparency in the FASB’s process of creating the framework would be important. Others cautioned that, while the decision-making framework needs to be completed, the process of developing it should not go on so long that there are no short term victories (i.e., dealing with problem standards immediately). Some suggested a framework would provide benchmarks so that the PCSIC could determine if it is meeting its goals.

Agenda Setting

The majority of participants felt that, while the FASB needs to be involved in setting the PCSIC agenda, it should not have control of it. This was a particular concern among those who opposed having a FASB member as sole chair of the PCSIC. Most agreed that, like the EITF, the PCSIC should set its own agenda. They also agreed that the development of the private company framework should provide guidance in regard to agenda setting.

Ratification process

Views differed about the ratification process proposed in the Trustee plan. Some participants were concerned about the possibility of the FASB failing to ratify a proposal unanimously supported by the PCSIC. Others pointed out that, if the FASB is as continually involved in the process as proposed, and the council and the FASB are indeed working towards common objectives, then such a scenario should not occur. Some felt that the council should be able to override a FASB veto. One participant suggested there be no ratification requirement, but that

the FASB should be required to explain why it objects to a PCSIC recommendation, and open it up to public comment. Another suggested there would need to be a level of trust on all sides, but feels the ultimate decision on recommendations should be the FASB's.

Participants were concerned about the voting process. Many felt that the PCSIC should be given power to override a FASB veto.

PCSIC Role in Ongoing FASB Projects

All participants agreed that the PCSIC and the FASB should work side by side to evaluate issues on an ongoing basis, as opposed to bringing the PCSIC in at the end of the process. One participant suggested that PCFRC input may have been “unwelcome” because it weighed in on issues after FASB decisions had been made. Another said that, even if only from a public relations standpoint, it would be important to demonstrate (perhaps in the basis of conclusions?) that PCSIC input had been considered by the FASB in its decisions.

ATLANTA ROUNDTABLE / WEDNESDAY, JANUARY 18, 2012

Participants

Andre Alexander, *Institute of Management Accountants*

Ernest Baugh, Jr., *Mayer Hoffman McCann*

Maria Bullen, *Clayton State University*

Rick Day, *McGladrey & Pullen*

Mike Elliott, *Noro-Moseley Partners*

Elizabeth Gantnier, *Stegman & Company*

Thomas Groskopf, *Barnes, Dennig & Co. Ltd.*

David Miller, *Nail McKinney Professional Association*

Joseph Pendergrass, *Multimedia Commerce Group/
Jewelry Television*

Valerie Rainey, *INTTRA*

Chris Rogers, *Infragistics*

Bill Schramm, *PricewaterhouseCoopers*

Stephen Schuetz, *Ernst & Young*

Harvey Shuster, *VuKnowledge Media, Inc.*

Andy Thrower, *Financial Executives International*

Salome Tinker, *Association for Financial Professionals*

David Wagner, *The Clearing House*

Derek Williams, *First Peoples Bank*

Mark Zmiewski, *Risk Management Association*

FAF/FASB Participants and Observers

Jack Brennan, *FAF Chairman*

Kevin Catalano, *FASB Practice Fellow*

Dan Ebersole, *FAF Trustee*

Grace Hinchman, *FAF Vice President, External Relations*

Chris Klimek, *FAF Senior Manager, Media Relations
and Executive Communications*

Mack Lawhon, *FAF Trustee*

Jay Perrell, *FAF Trustee*

Terri Polley, *FAF President and CEO*

Leslie Seidman, *FASB Chairman*

JANUARY 26, 2012 / FORT WORTH, TEXAS

OVERALL REACTIONS TO THE FAF PCSIC PROPOSAL

Roundtable participants generally were supportive of the plan, calling it a positive step that demonstrates the commitment of the FAF to addressing private company issues. They overwhelmingly supported the concept of one standard setter — FASB — and one U.S. GAAP. All agreed that a two-GAAP system would be, in the words of one participant, “untenable,” saying that existing GAAP with exceptions for private companies was the best path forward. They also agreed that it would be important to define “private” and “public” company.

Many agreed that disclosures, not recognition and measurement, should be the differentiating factor between public and private companies standards. They felt that disclosures are the most important element from a user’s perspective.

While participants agreed that active FASB participation on the PCSIC would be critical, several voiced concerns about what might be perceived as a lack of autonomy of the council if the FASB were given too much influence over agenda setting or council leadership. All felt it was important that the FASB make a good faith effort to work with the council, and that the Board considers the council’s input transparently. Many agreed that the FAF’s oversight of the PCSIC and its interaction with the FASB would be critical to the council’s success. Participants also felt that the development of the private company decision making framework would be an important factor.

Finally, participants emphasized the importance of perception. While roundtable participants were generally supportive of the FAF plan for the creation of the PCSIC, they pointed out that many in the private company world believe it does not embody enough change. Building trust is critical to the plan’s acceptance in the market.

TOPIC 1: STRUCTURE OF THE PROPOSED PCSIC

Formation and Membership

In terms of council composition, balance and diversity were important to participants. Many participants supported the idea of 12 members, consisting of 4 users, 4 preparers, and 4 practitioners (not including the chair/vice chair). All agreed that 15 would be too large to be effective. Some said that making it smaller than 11 or 12 members would undermine the goal of having enough diversity.

Most believe that the members should speak for themselves, and not represent an association or outside lobbying group.

While all participants agreed that the FASB should be involved in the council, they differed on whether a FASB member should chair it. Those opposed to a FASB member chairing the PCSIC cited perception as the main issue, arguing that it is critical to avoid any appearance that the council is being controlled by the FASB. Most of these participants preferred that a FASB member serve as vice chair. The possibility of having a FASB co-chair was also mentioned, but some voiced concern about a loss of urgency/accountability that sometimes exists in a co-chair structure.

Compensation of PCSIC members was discussed. Many supported the idea of compensating council members as a way to help private companies that can’t absorb the cost and loss of time required for a staff member to serve on the council. One participant pointed out, however, that his company has a policy that would not allow him to accept compensation. He and others said that the volunteer aspect of the PCSIC should be viewed as a positive attribute.

Meetings

Most participants felt that the council should meet more frequently than the 4 to 6 meetings per year proposed by the plan. Meeting more frequently would be especially important in the beginning, as the council will need to address a backlog of existing issues, participants said.

FAF Oversight

Participants agreed that direct FAF oversight of the PCSIC would be critical to the new council's success, with some describing it as a major positive aspect of the new plan. As one participant pointed out, monitoring and accountability are closely linked.

Discussion turned to what the end goal would be, and how to measure success in attaining it. Some pointed out that success would be hard to measure quantitatively, but that the plan has to be a dynamic, evolving one.

TOPIC 2: AUTHORITY AND CRITICAL RESPONSIBILITIES OF THE PROPOSED PCSIC

Decision Framework

Participants supported the FASB's ongoing work on the decision-making framework, and agreed that the FASB should wait to finalize it until the PCSIC (or any similar group ultimately created by the Trustees) was established and could weigh in on it. Several praised the FASB for what it has done in recent months to improve the standard setting process for private companies.

Agenda Setting

While they agreed that active FASB participation in the PCSIC would be critical, several voiced concern about what might be perceived as a lack of autonomy of the council if the FASB were given too much influence in terms of agenda setting or council leadership. In other words, it needs to be clear that the council is in charge of its own agenda.

Ratification Process

Several participants felt that PCSIC proposals should be issued for public comment before they are submitted to the FASB for ratification. They believe this step would increase the credibility of the process. Some disagreed, though, and asked how the PCSIC would incorporate public comments before submitting its recommendations to the FASB.

Views were mixed on whether there should be a time frame for FASB ratification, wherein a PCSIC recommendation would be ratified automatically if the FASB doesn't vote on it within a prescribed number of weeks or months. Some felt that automatic ratification could be manipulated by the council if it deliberately issues a recommendation when the FASB is overextended. Others disagreed, saying that a recommendation made by the PCSIC should not come as a surprise to the FASB if the process works as proposed. Most agreed, though, that transparency would be critical to the ratification process. If the FASB rejects a PCSIC recommendation, it should be required to explain why.

PCSIC Role in Ongoing FASB Projects

There was widespread agreement that the PCSIC would be more effective if it were to work with the FASB on new projects from the beginning as opposed to being brought in at the end of the process.

FORT WORTH ROUNDTABLE / THURSDAY, JANUARY 26, 2012**Participants**

Tim Christen, *Baker Tilly* (auditor)
Dave Christensen, *USAA* (preparer)
Marty Davidson, *TPG Capital* (user)
Harry Drew, *Legacy Funeral Group* (preparer)
John Exline, *CGF Industries* (preparer)
Gaylen Hansen, *NASBA*
Trevor Loy, *Flywheel Ventures* (user)
Pattie McKee, *ViewPoint Bank* (user)
David Rook, *Weaver and Tidwell, LLP* (auditor)
Jim Smith, *Smith, Jackson, Byer & Bovard* (auditor)
Joan Waggoner, *Blackman Kallick LLP* (auditor)
John Wall, *JMEG Electrical Contractors, LP* (preparer)

FAF/FASB Participants and Observers

Jack Brennan, *FAF Chairman*
Jeff Diermeier, *FAF Trustee*
Grace Hinchman, *FAF Vice President, External Relations*
Chris Klimek, *FAF Senior Manager, Media Relations and Executive Communications*
Mack Lawhon, *FAF Trustee*
Terri Polley, *FAF President and CEO*
Leslie Seidman, *FASB Chairman*
Mary Stone, *FAF Trustee*

FEBRUARY 7, 2012 / PALO ALTO, CALIFORNIA

OVERALL REACTIONS TO THE FAF PCSIC PROPOSAL

Overall, participants supported the concept of creating the PCSIC, but felt the proposed model could be improved. Above all, they believed the perception of a strong and independent council would be critical to its success.

Participants also felt it would be important to acknowledge the difference between private and public company reporting structures. While public companies cannot speak openly to individual investors, private companies can.

Several agreed that private companies are experiencing “disclosure overload.” Others said that current standards lack relevance to private company users, who care about cash flow and “burn rates,” not fair value calculations.

Most agreed that there should not be too much difference between recognition and measurement for private and public companies. However, they noted some situations in which recognition and measurement should be different (for example, stock options). One participant suggested (and others agreed) that there are really three, as opposed to just two, categories of companies. These categories include:

1. Public companies, which are overseen by the SEC
2. Closely-held private companies, defined as small companies that are not now and unlikely to ever be part of the public capital markets
3. Private companies that will eventually go public

Because closely-held private companies have no intention of going public, they report as they choose. Private companies in the third category would have the most to gain from GAAP modifications, and are in need of a better “on ramp” for going public.

Others felt that GAAP is the “gold standard” for financial reporting, and were concerned about consequences of

creating a separate GAAP or a separate standard-setting board. They felt that GAAP provides discipline in financial reporting for private companies, and that separate standards would create needless complexity. On the other hand, they pointed out that standards that are already complex may be complex for good reason. They also thought the creation of a separate standard-setting board would put up a roadblock for private companies trying to go public, and for private company preparers to move into public company jobs (and vice versa).

Others felt that relevance, not complexity, should drive modifications, because sometimes the complexity is relevant. Others agreed, saying that the only thing that should trump cost/benefit analysis is relevance.

TOPIC 1: STRUCTURE OF THE PROPOSED PCSIC

Formation and Membership

Most participants felt that having a FASB member chair the council would create the perception of a weak or FASB-controlled council.

Roundtable participants preferred that the PCSIC be smaller than the proposed 11 to 15 members. A group of that size lacks “agility,” they argued. Some felt that 5 to 7 members would be optimal. Suggestions included making a smaller PCSIC and then, to ensure that diverse views are heard, to create an advisory group to support the council. Another suggestion involved keeping the PCSIC at 15 members, and then dividing that group into separate subcommittees to tackle specific issues of concern, for example, one subcommittee would look at stock options, another would concentrate on fair value, etc.

One participant suggested that PCSIC members serve full time, not as volunteers, because most small private companies lack the bandwidth to have a key staff member commit the kind of time needed to serve.

Meetings

Nearly all of the participants felt that the council should meet more frequently than proposed in the plan, at least at first, to deal with the known issues that are creating unrest among private companies. More frequent meetings would help the group get up to speed and gain momentum—important, in light of the “history we have to overcome,” as one participant put it.

FAF Oversight

Most agreed that FAF oversight would be imperative, and that as long as the Board of Trustees has a feedback mechanism to measure the success of the PCSIC, then it would be effective. Participants noted that it would be difficult to quantify success in the early stages, and that the PCSIC would have to have the ability to adapt over time. One participant suggested that success could not be measured any sooner than the three year review suggested in the plan. Ultimately, though, success will be measured by the reader of the financial statement.

TOPIC 2: AUTHORITY AND CRITICAL RESPONSIBILITIES OF THE PROPOSED PCSIC

Decision Framework

Most participants felt that just focusing on the framework would be too theoretical and take too much time. Participants supported a combination “top down/bottom up” approach: work on the framework, but also suggested that the council tackle critical issues immediately to create momentum.

Participants felt it would be important to determine as part of the framework what companies would qualify for accounting modifications. Some felt the differentiation should be between “public” and “private” companies; others argued that the differentiation should be between “large” and “small” companies.

Agenda Setting

Most participants agreed that the FASB and PCSIC would have to work together on setting the agenda. It was noted that if the FASB is involved in agenda-setting, it should be no surprise when it gets an issue to vote on.

Ratification Process

Participants agreed that if the FASB is in danger of vetoing PCSIC decisions, then the process has not been successful. The focus should be on collaboration. As one participant put it, it’s not about the vote, it’s about the mindset. What needs to change is the precedent of the FASB not paying attention to private company issues. Many agreed that trust is an issue. If the FASB and the PCSIC collaborate as they should, then nothing should get vetoed by the FASB.

Some liked the idea of a PCSIC issue automatically going into effect if the FASB doesn’t vote on it within a certain period of time.

PCSIC role in Ongoing FASB Projects

In the short term, it should modify existing standards, but long term, the PCSIC should have input into the standard-setting process.

PALO ALTO, CALIFORNIA ROUNDTABLE / TUESDAY, FEBRUARY 7, 2012**Participants**

Rick Brounstein, *New Cardio, Inc.* (preparer)
Ed Jordan, *Nolet Spirits* (preparer/auditor)
Michael King, *Peking Handicrafts* (preparer)
Ted Lodden, *Brooks Lodden, PC* (auditor)
Anne McKenna, *Tioga State Bank* (user)
Michael Maher, *U.S. Venture Partners* (user)
Rodney Rice, *RubinBrown, LLP* (auditor)
Anne Rockhold, *Accel Partners* (user)
Steven San Filippo, *Sensiba San Filippo, LLP* (auditor)
Ken Gee, *BDO* (auditor)
Ajay Vadera, *Monster Cable* (preparer)
Scott Waite, *Patelco Credit Union* (user)
Russell Wasson, *NRECA (National Rural Electric Cooperative Association)*

FAF/FASB Participants and Observers

John Davidson, *FAF Trustee*
Ed Harrington, *FAF Trustee*
Chris Klimek, *FAF Senior Manager, Media Relations and Executive Communications*
Mack Lawhon, *FAF Trustee*
Terri Polley, *FAF President & CEO*
Hal Schroeder, *FASB Member*

MARCH 1, 2012 / BOSTON, MASSACHUSETTS

OVERALL REACTIONS TO THE FAF PCSIC PROPOSAL

Many participants felt that the FAF proposal represents a balanced, realistic approach. Some who initially supported a separate authoritative standard setting board expressed concerns that a separate board would result in differential GAAP (or “GAAP Lite,” as one participant called it) and create more complexity. Most agreed that accounting principles should be the same, but that many of the disclosures required by GAAP are irrelevant to private company financial statement users. They were comfortable with differential disclosures based on relevance. It was suggested, and many agreed, that any differences in measurement should have a high threshold, and that recognition differences should be required to meet the highest threshold.

Others felt that the profound qualitative differences between public and private companies, and their widely divergent user needs, precluded the need to maintain the “sameness” of all standards. They also pointed out that, if GAAP remains too burdensome and costly for private companies, it will undermine their incentive to go public. These participants still preferred a separate, independent standard-setting board, but absent that, they would support different disclosure requirements for public and private companies.

Many participants felt that the PCSIC should be more independent of the FASB than proposed in the plan. Most objected to having a FASB member chair the PCSIC. Their reasons included the need to overcome mistrust that has developed over time, and the need to avoid the perception that the FASB dominates the council. Some suggested co-chairs, with one a FASB member, the other not. Others felt that the chair should be a PCSIC member. They agreed, though, that if a FASB member is to serve on the PCSIC in any capacity, he or she should have private company experience.

TOPIC 1: STRUCTURE OF THE PROPOSED PCSIC

Formation and Membership

A few participants said that 15 members would be the right size, saying that more people would help balance the workload among members who also have significant responsibilities in their full-time jobs. Most participants, though, agreed that 15 members would be too many. Views differed on the ideal size. Some suggested 10 to 12 members as an ideal size. Others said 7 or 8 members would be good. Still others cited 9 as the “sweet spot.” It was also suggested that the initial, proposed 5 year term was a bit too long, and that the renewal terms of 1 year might be a bit too short.

Participants felt that staffing the PCSIC would be critical to its success. These participants expressed concern that there is no staffing plan in the proposal, and thought that the PCSIC should have power over its own staff.

All participants acknowledged the importance of selecting members who are willing and able to devote the needed time and effort to serving on the council. One participant used this to argue against appointing association representatives as members, since this runs the risk of having members appointed for political reasons, to honor their service, etc., rather than being appointed based on their interest and engagement in private company issues. Others felt that, while members should not be association representatives, it would be important to get association input into membership appointments. One suggested (and others agreed) that the FAF should consider having at least one banking regulator on the council, to bring a “healthy public perspective” to the process.

Many participants felt that, given the significant time and resources required to serve, PCSIC members should be compensated in some way.

Meetings

Nearly all participants agreed that the council would need to meet more than 4 to 6 times per year to gain sufficient momentum and be able to address critical, “low hanging” fruit issues immediately. Several emphasized the importance of being able to show progress during the council’s first year of existence, in order to create a perception among private company stakeholders that it was indeed empowered to create change. Many said this was critical in rebuilding trust.

FAF Oversight

Most participants agreed that FAF monitoring and oversight will be important to the success of the PCSIC. Some said it would be “very important” for the PCSIC to report to the FAF, and that the FAF ensures standard setting remains consistent. FAF oversight should also ensure that the FASB acts on PCSIC recommendations in a timely, thoughtful manner. They all agreed that the FAF should conduct ongoing monitoring, in addition to the three year review proposed in the plan.

All agreed that transparency about the process would be very important to the PCSIC’s success. Others measures of success would be relief from complexity and more clarity of standards. Most agreed, though, that while not everyone will be satisfied with every outcome, demonstrating that private companies are being heard would be a critical measure of success.

TOPIC 2: AUTHORITY AND CRITICAL RESPONSIBILITIES OF THE PROPOSED PCSIC

Decision framework

Some said it would be critical to establish the decision making framework immediately, and to move away from a “patchwork” of standards. Many also felt it would be important to define exactly what a “private company” is. One participant said the framework should focus not just on the cost of change, but on the benefits of providing certain information versus the cost of providing it. Not doing

something because it costs too much is not a good reason in itself to excuse private companies from having to do it, participants said.

Agenda setting

Most participants felt the PCSIC needs the freedom to set its own agenda in order to effect real change. This would also be critical to its acceptance among private company stakeholders. Many said the council would not have this freedom if the PCSIC chair were a FASB member and, as chair, possessed agenda-setting power. One participant pointed out that, while the PCSIC’s ability to set the agenda independently is important, it’s not good if the council puts “nonstarters” on its agenda.

Ratification Process

Views were mixed on ratification vs. veto power. Some participants were concerned with the plan’s provision for FASB ratification, saying it could inhibit change and “disempower” the PCSIC. They suggested the FASB should be required to have a supermajority vote to veto a council decision. Otherwise, they suggested that there would be no meaningful change. Others supported the ratification proposal, and pointed to the successful, collaborative relationship between the FASB and the EITF. These participants believed that ratification says that the FASB stands behind what the council says, and sends a more positive message. They believe it offers checks and balances, and ensures the council isn’t proposing differences just for the sake of difference.

Most agreed that FASB should have a relatively short time limit to vote on a PCSIC decision (no “pocket vetoes”). In order for the process to work, the presumption should be that council decisions will be accepted by the FASB. Only rarely should something be rejected and when it is, the FASB should make it clear why. One participant pointed out that this would be critical in order to avoid the mistakes that occurred with the PCFRC.

PCSIC role in ongoing FASB projects

Most agreed that the PCSIC should be involved throughout the FASB standard setting process, not just at the end.

BOSTON, MASSACHUSETTS ROUNDTABLE / THURSDAY, MARCH 1, 2012**Participants**

Robert Anton, *CDM Smith, Inc.* (preparer)
Billy Atkinson, *NASBA* (regulator)
Stuart Benton, *Bradford Soap Works Inc.* (preparer)
Mark Bielstein, *KPMG LLP* (auditor)
Kirk Billingsley, *Pendleton Community Bank* (user)
Richard Caturano, *McGladrey & Pullen, LLP* (auditor)
Diana Frazier, *FLAG Capital Management, LLC* (user)
Scott Lassonde, *Harvey Building Products* (preparer)
Paul Maeder, *Highland Capital Partners, LLC* (user)
John McEnerney, *New York State Department of Financial Services* (regulator)
Phil Pacino, *Greene Rubin Miller & Pacino* (auditor)
Bill Pirolli, *DiSanto, Priest & Co* (auditor)
Paul Rohan, *UHY LLP* (auditor)
Dianne Russell, *Comerica Bank* (user)
Bob Uhl, *Deloitte LLP* (auditor)
Larry Weinstock, *Mana Products, Inc.* (preparer)

FAF/FASB Participants and Observers

Jack Brennan, *FAF Chairman*
Kevin Catalano, *FASB Practice Fellow*
Grace Hinchman, *FAF Vice President, External Relations*
Dennis Kass, *FAF Trustee*
Chris Klimek, *FAF Senior Manager, Media Relations and Executive Communications*
Mack Lawhon, *FAF Trustee*
Terri Polley, *FAF President and CEO*
Leslie Seidman, *FASB Chairman*
Luis Viceira, *FAF Trustee*



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