THE FINANCIAL ACCOUNTING FOUNDATION BOARD OF TRUSTEES

PLAN TO ESTABLISH

THE PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL

COMMENT LETTER SUMMARY

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 here.

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.

Respondent Profile

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 (including academics, retirees, and 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.*

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 PCSIC chairman 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 8 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. (See paragraph 30 for further information on comments from these remaining respondents.)

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 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) Uncertainty 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) A perception of FASB dominance over the PCSIC, which may hinder the PCSIC's ability to execute meaningful changes.

    (c) Concerns that some FASB members may not have an adequate understanding of private company issues and challenges.

    (d) Inherent difficulties for the same board 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) Concerns with the FASB's past and current standard-setting process for private companies.

    (b) The cost and complexity of some accounting standards.

    (c) The perceived lack of relevance of particular standards to some users of private company financial statements.

    (d) The FASB appears to be too focused on public companies.

    (e) The PCSIC as proposed would 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) Concerns that neither the FASB nor the FAF Board of Trustees has enough members with private company experience.

    (g) The FASB does not seem to have 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 would 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).

Summary Comments from Plan Supporters

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 would 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 would result from a separate standard-setting body, given that the FASB already has the appropriate structure and due process in place.

    (c) The plan striking the right balance of interaction between the FASB and the PCSIC and providing 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 would 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 would 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-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 would be very difficult.

    (b) Differences in financial reporting, particularly in recognition and measurement, should be permitted in a measured and judicious manner that would best be accomplished through development of a robust framework.

    (c) Establishing mutually agreed upon criteria would 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.

PCSIC Chairman Role

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

    (a) Those opposed to having a FASB member as chairman 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 chairman 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 chairman 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 would 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 would 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. As noted in paragraph 7, some respondents neither supported nor opposed the FAF plan. Comments from those respondents included the following:

    (a) No compelling evidence exists to suggest that the objectives of financial reporting are not being met for private companies.

    (b) Creation of the PCSIC will result in an unneeded level of bureaucracy that requires funding. Improvements can be made by the FASB using the current process and implementing different methods to acquire feedback from private companies.

    (c) Rather than creating the PCSIC, the Financial Accounting Standards Advisory Council should be expanded to include more members that have private company experience.

    (d) Establishing a separate group that will accelerate GAAP exceptions will weaken and fragment GAAP.

    (e) GAAP exceptions for private companies allow them to become less transparent while inviting complications and confusion about their financial reporting.

31. Several respondents commented about the importance of defining what constitutes a private company for standard-setting purposes.

32. 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.

(d) The lack of comparability created by different standards for private companies runs counter to what investors need to make investment decisions.

33. 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.

34. 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.

35. Several respondents acknowledged the need for private company stakeholders to increase their awareness of, and involvement in, the standard-setting process.

36. 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.

37. Several respondents commented that the FASB would 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.

38. 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.