



Financial Accounting Foundation Board of Trustees Plan to Establish the Private Company Standards Improvement Council

Executive Summary

As a result of outreach to external stakeholders, study, and deliberation, the Financial Accounting Foundation (FAF) Board of Trustees plans to establish a “Private Company Standards Improvement Council” (PCSIC) to improve the standard-setting process for private companies. The Trustees seek public comment on the plan, as outlined in this document, until January 14, 2012. The Trustees will make a final decision on the plan following the end of the comment period.

Authority and Critical Responsibilities

The PCSIC would determine whether exceptions or modifications to nongovernmental US Generally Accepted Accounting Principles (US GAAP) are required to address the needs of users of private company financial statements. Jointly with the Financial Accounting Standards Board (FASB), which sets accounting standards for public and private companies and not-for-profit organizations in the United States, the PCSIC would develop criteria for determining whether and when exceptions or modifications to US GAAP are warranted for private companies. Based on those criteria, the PCSIC would conduct a review of existing US GAAP and identify standards that require reconsideration and vote on possible exceptions or modifications for private companies. Any proposed changes to existing US GAAP would be subject to ratification by the FASB and undergo thorough due process, including public comment. The PCSIC would be overseen by the FAF Board of Trustees.

Formation and Membership

The PCSIC would comprise a chairman and 11 to 15 members. The PCSIC chairman, who would be selected and appointed by the Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. PCSIC members also would be selected and appointed by the Trustees. Members would include users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements.

Nominations for membership on the PCSIC would be sought from a broad array of interested stakeholders and stakeholder groups. Members would be appointed for a three-year term and could be reappointed, based on input from the PCSIC chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCSIC. FASB staff would be assigned to support and work closely with the PCSIC on outreach and research projects to leverage the FASB’s resources and to avoid duplication of efforts.

Meetings

The PCSIC would meet four to six times per year. The meetings would be held at the FASB's offices in Norwalk, Connecticut, with the intention that all FASB members would participate. PCSIC meetings would be webcast and open to the public, except for discussions of an administrative nature, which could be closed.

Oversight

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

The planned PCSIC best addresses constituent concerns

The FASB has made recent, substantive changes to the manner in which it engages with private company stakeholders, and has demonstrated a greater operational and structural commitment to further address these issues. However, constituents continue to express concerns about private company needs.

In addressing these concerns, the Trustees considered a range of options, including:

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

In deciding on the second option, the Trustees concluded that creating a separate standard-setting board for private companies would likely lead to the establishment of two separate sets of US accounting standards—a so-called "little GAAP" for private companies and a "big GAAP" for public companies, which is not a desired outcome.

Concerns communicated to the Trustees about the complexity and relevance of US GAAP to private companies appear to involve a small but key group of standards. The Trustees concluded that improvements should focus on those standards first.

In addition, the Trustees concluded that the FASB should address—and is committed to addressing—complexity, relevance, and cost-benefit issues more broadly, as other constituents, in addition to private companies, have expressed similar concerns.