

FINANCIAL ACCOUNTING FOUNDATION

**THREE-YEAR REVIEW OF THE
PRIVATE COMPANY COUNCIL**

Request for Comment



FEBRUARY 2015 | NORWALK, CONNECTICUT

FINANCIAL ACCOUNTING FOUNDATION

THREE-YEAR REVIEW OF THE PRIVATE COMPANY COUNCIL

OVERVIEW

The Financial Accounting Foundation's (FAF) Board of Trustees (Trustees) is conducting an overall assessment of the Private Company Council (PCC). The objectives of this assessment are to:

- Determine whether the PCC is meeting its primary responsibilities and mission
- Provide an assessment of the PCC's continuing role and effectiveness
- Address changes that might be made to improve the PCC's effectiveness.

The Trustees are seeking stakeholder comments by May 11, 2015, on the PCC's effectiveness, accomplishments, and its future role in setting standards for private companies.

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Among the issues on which the Trustees are seeking comment are:

- Has the PCC been successful in proposing alternatives within Generally Accepted Accounting Principles (GAAP) that address the needs of private company financial statement users?
- Has the PCC been effective as an advisory body to the FASB in the standard-setting process?
- What organizational or procedural improvements to the PCC are needed?
- What is your reaction to the possible improvements identified by the Trustees (listed on pages 8 and 9)?

A full list of questions for stakeholders can be found on page 10.

Stakeholders should email written comments to PCCReview@f-a-f.org. Those without email should send their comments to "PCC Review," Financial Accounting Foundation, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

BACKGROUND

The PCC was established in May 2012 to improve the process of setting accounting standards for private companies. The PCC has two principal responsibilities:

1. The PCC determines, using the Private Company Decision-Making Framework, whether alternatives to existing GAAP are necessary to address the needs of users of private company financial statements. (Following a Financial Accounting Standards Board (FASB) endorsement process, alternatives for private companies developed by the PCC are incorporated into GAAP.)
2. 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.

The PCC was established in May 2012 to improve the process of setting accounting standards for private companies.

In the [May 2012 report](#) that established the PCC, the Trustees said that they would conduct an overall assessment of the PCC following its first three years of operation. The PCC is now in its third year of operations, and the purpose of this document is to assist the Trustees in that assessment. The objectives of this three-year assessment are to:

- Determine whether the PCC is meeting its primary responsibilities and mission
- Provide an assessment of the PCC's continuing role and effectiveness
- Address changes that might be made to improve the PCC's effectiveness.

One of the PCC's first responsibilities was to work jointly with the FASB to develop mutually agreed-on criteria for determining whether and when alternatives to GAAP are warranted for private companies. The result of that joint effort was the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (Framework) that was finalized in December 2013.

PCC Responsibilities and Operating Procedures

Key elements of the PCC's responsibilities and operating procedures (as included in the May 2012 report establishing the PCC) are described below.

Membership and Terms. The PCC may comprise 9 to 12 members, including a chair, all of whom are selected and appointed by the FAF Trustees. The PCC's membership includes individuals with backgrounds and experience in using, preparing, and auditing (including compilation and review of) private company financial statements. Members are appointed for a three-year term and may be reappointed for an additional two-year term. Membership tenure may be staggered to establish an orderly rotation. The PCC currently has a chair and nine members (whose initial terms expire at the end of 2015). Refer to Exhibit A for a list of current PCC members.

In conjunction with this three-year review of the PCC, the Trustees are beginning to consider an orderly rotation plan for PCC member terms and will be seeking nominations for PCC members in the near future. A goal of that plan might be an annual turnover of approximately one-third of PCC members.

FASB Liaison and Staff Support. The FAF Trustees assign a FASB member (currently, Daryl Buck) to serve as a FASB liaison to the PCC. The PCC liaison's primary purpose is to serve as the main point of contact to facilitate communications and integration between the PCC and the FASB. FASB technical and administrative staff is assigned to support and work closely with the PCC.

The assistance and support provided by the assigned FASB technical staff includes, 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.

Meetings. During its first three years of operation, the PCC is charged with holding at least five meetings each year, with additional meetings as determined necessary by the PCC chair. Deliberative meetings of the PCC are open to the public, although the PCC may hold closed educational and administrative sessions. To date, all meetings have been held at the FAF's offices in Norwalk, Connecticut, but up to two meetings each year may be held elsewhere.

All FASB members are expected to attend and participate in deliberative meetings of the PCC, but closed educational and administrative meetings may be held with or without FASB members present. FASB member participation in PCC meetings 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.

PCC Agenda. Using the Framework, the PCC determines which elements of existing GAAP to consider for possible alternatives by a vote of two-thirds of all sitting PCC members. PCC agenda decisions are made in consultation with the FASB and with input from stakeholders. Initially, the PCC focused on evaluating existing GAAP to identify standards that may require alternatives to address the needs of private company financial statement users. Because a significant role of the PCC is to advise the FASB on their current agenda projects, the PCC generally refrains from adding separate projects to its agenda on topics that the FASB is already considering.

Applying the criteria included in the Framework, the PCC develops, deliberates, and formally votes on proposed alternatives within GAAP for private companies.

PCC Decision Making on Existing GAAP and FASB Endorsement Process. Applying the criteria included in the Framework, the PCC develops, deliberates, and formally votes on proposed alternatives within GAAP for private companies. The PCC submits proposed and final alternatives that it approves (by a two-thirds vote of all PCC members) to the FASB for a decision on endorsement.

If endorsed by a simple majority of FASB members, the FASB exposes the proposed

alternative within GAAP for public comment. At the conclusion of the comment process, the PCC considers changes to the proposed alternative and forwards its final alternative to the FASB for an endorsement decision.

If the FASB endorses the PCC alternative, the alternative is incorporated into GAAP. If the FASB does not endorse a proposed or final PCC alternative, the FASB chairman will provide the PCC chair with a written explanation, including possible changes for the PCC to consider that could result in FASB endorsement.

The PCC works actively and closely with the FASB to provide recommendations for appropriate treatment for private companies on active FASB projects.

PCC Advisory Role on FASB Projects. 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 works actively and closely with the FASB to provide recommendations for appropriate treatment for private companies on active FASB projects. The PCC may vote to provide a recommendation to the FASB for appropriate treatment for private companies on active FASB projects. Those recommendations are considered by the FASB in its deliberations. The FASB is responsible for documenting, in the basis for conclusions of its proposed and final Accounting Standards Updates (ASUs), how it separately considered the needs of private companies and the recommendations from the PCC.

Oversight. The Trustees created a special-purpose Trustee committee, the Private Company Review Committee (PCRC), which has primary oversight responsibilities for the PCC during its initial three years of operations. The PCRC holds both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. As with other Trustee activities, the PCRC's role is only one of oversight—it is not involved in the technical aspects of standard setting. The PCRC is chaired by a Trustee (currently Mack Lawhon), appointed by the FAF Trustees, who has had substantial experience dealing with private company accounting issues. Oversight and monitoring of PCC activities are ongoing, and include PCRC member attendance at PCC meetings and other related activities.

The May 2012 report that established the PCC stated that following the PCC's first three years of operation, it is expected that the existing Standard-Setting Process Oversight Committee of the Trustees will assume the responsibilities of the PCRC. As part of this three-year assessment, the Trustees will consider whether its Standard-Setting Process Oversight Committee should assume the oversight responsibilities for the PCC beginning in 2016.

FASB CONSIDERATION OF PRIVATE COMPANY ISSUES

The FASB considers issues that pertain to private companies (as well as public companies) in each of its projects (unless private companies are excluded from the project scope). FASB project staff members are responsible for taking into account the specific considerations of all stakeholder groups (including private companies) on

their respective projects. FASB project staff members conduct research and outreach to ensure a thorough understanding of all stakeholder concerns. All FASB project staff members are trained to consider issues and conduct outreach with a variety of stakeholder groups—there are not specific staff members designated as “PCC” or “private company only” staff. Select PCC members serve as a resource to project level staff on key FASB projects. Current and potential projects on the PCC agenda also have specific project staff. Research on these projects (and potential projects) is conducted for private company stakeholders and more broadly for public company and not-for-profit stakeholders to identify whether there is a broader, more pervasive concern that needs to be addressed.

FASB Advisory Groups

The FASB has a number of advisory groups whose members share their views and experience with the FASB on matters related to projects on the FASB’s agenda, possible new agenda items, and practice and implementation of new standards. Although their focus is not specifically on private company issues, some of FASB’s advisory groups include members that bring a private company perspective—including the Financial Accounting Standards Advisory Council (FASAC) and the Small Business Advisory Committee (SBAC).

- FASAC meetings provide the FASB with an opportunity to obtain and discuss the views of a very diverse group of individuals from varied business and professional backgrounds. FASAC members, who are appointed by the FAF Trustees,

are drawn from the ranks of CEOs, CFOs, senior partners of public accounting firms, executive directors of professional organizations, and senior members of the academic and analyst communities. Some of those members have private company experience either because of the nature of their company or the various clients they serve.

- The SBAC focuses on increasing the opportunities for small business community members to share their ideas, knowledge, and experience with the FASB, as well as with the other group members. The SBAC comprises individuals representing users, preparers, and auditors in the small business community—most if not all SBAC members have some private company experience, some have public company experience also.

Since its first meeting in December 2012, the PCC has made significant progress in addressing financial accounting and reporting issues that are important to private company stakeholders as well as the wider financial reporting community.

The FASB periodically reviews the effectiveness of each of its advisory groups. Because small businesses that are public entities often face similar issues as private companies (many of which also are small businesses), the FASB decided to review the effectiveness of the SBAC around the same time as the three-year review of the PCC. The FASB is currently undertaking that review of the SBAC.

PCC ACCOMPLISHMENTS

Since its first meeting in December 2012, the PCC has made significant progress in addressing financial accounting and reporting issues that are important to private company stakeholders as well as the wider financial reporting community. A summary of the PCC's activities during its first two years follows.

- In December 2013, the PCC and the FASB issued the final Private Company Decision-Making Framework. The Framework assists the FASB and the PCC in determining whether and when to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under GAAP. Also in December 2013, the FASB, with input from the PCC, issued an Accounting Standards Update (ASU) on the definition of a public business entity. The FASB and the PCC use that ASU to identify the types of companies that are excluded from the scope of the Framework.
- In January 2014, the FASB issued two ASUs, developed with the PCC, that provide alternatives for private companies. One enables private companies to more simply account for goodwill; the second enables private companies to use a simplified hedge accounting approach when accounting for certain interest rate swaps. These two ASUs address issues that private company stakeholders originally identified as priorities for the PCC.
- In March 2014, the FASB issued an ASU, developed with the PCC, that improves private company financial reporting in the application of variable interest entity (VIE) guidance to certain common control leasing arrangements. The disclosures under this alternative provide useful,

lessor-related information for users of private company financial statements, and reduce costs and complexity for private company lessees that apply VIE guidance.

- In April 2014, the PCC added to its agenda a project to consider how applying the new definition of a public business entity could affect certain areas of existing GAAP.
- In December 2014, the FASB issued an ASU, developed with the PCC, that provides an alternative to exempt private companies from separately recognizing and measuring noncompetition agreements and customer-related intangible assets (such as customer relationships) that are not capable of being sold or licensed independently in a business combination.

The PCC has become a springboard for efforts to reduce complexity in GAAP for all types of organizations, not just private companies.

The PCC also has become a springboard for efforts to reduce complexity in GAAP for all types of organizations, not just private companies. The FASB has adopted a practice of considering whether any GAAP alternative proposed by the PCC may apply to public as well as private companies—along with not-for-profit organizations. For example:

- As a result of the PCC's work on intangible assets, the FASB added a project to look at ways of improving this area of accounting for public companies and not-for-profit organizations.
- Based on the PCC's recommendation, the FASB added a project and issued a final ASU to address financial reporting complexity for organizations—both public

and private—that are in the development stage.

- The FASB added a project on the accounting for goodwill for public companies and not-for-profits based on stakeholder feedback on the PCC’s original proposal.
- The FASB added a project on share-based compensation for public and private companies based on input from the PCC and other stakeholders.

The PCC also has advised the FASB on its current projects in public discussions, and by forming PCC subgroups to advise the FASB on specific projects. For example, the PCC advised the FASB on issues involving revenue recognition, leases, accounting for financial instruments, going concern, disclosure framework, government assistance, and reporting discontinued operations, among many others.

Lastly, the PCC’s discussions on complexity and cost issues were among the developments that prompted the FASB’s recent simplification initiative, which is intended to reduce cost and complexity in financial reporting, while improving or maintaining the usefulness of the information reported to investors and other users of financial statements.

The PCC has placed significant emphasis on seeking and securing input from private company stakeholders on financial accounting and reporting issues that affect them. In addition to traditional stakeholder outreach, in 2013 and 2014 the PCC held three Private Company Town Hall meetings in different locations (Columbus, OH; Las Vegas, NV; and Seattle, WA) to help ensure that private company stakeholders have a greater voice in the standard-setting process. The PCC plans to hold additional Town Hall meetings

in 2015, the first of which will be held on April 28, 2015, at Southern Methodist University in Dallas, TX.

INFORMAL STAKEHOLDER OUTREACH

In anticipation of developing this Request for Comment, the Trustees informally sought input on the PCC’s effectiveness, accomplishments, and its future role in setting standards for private companies from a range of stakeholders in the second half of 2014.

From July through October 2014, PCRC members and FAF staff spoke with FAF Trustees, FASB members, FASB staff, PCC members, representatives from firms that audit private company financial statements, and other stakeholder groups with an interest in private company issues. The following paragraphs summarize what the Trustees learned from stakeholders.

The stakeholder input was supportive regarding the PCC’s overall effectiveness, especially in addressing “low hanging fruit” issues that are important to private companies (for example, accounting alternatives for intangible assets in business combinations; consolidation of VIEs; and, alternatives for goodwill accounting and interest rate swaps).

Stakeholders noted that although the PCC’s review of existing GAAP (commonly referred to as the “look-back” phase) is winding down, private companies may encounter challenges with GAAP in the future. As a result, going forward the PCC will need to balance the demands of its role as an advisory body to the FASB on private company issues and its responsibility to identify and help resolve unanticipated private company issues that arise with current GAAP.

The PCC members have been actively engaged in PCC meetings and have made the effort to be prepared to provide useful input at PCC meetings to the FASB on private company issues related to current FASB projects.

However, PCC members observed that they have an inherent information disadvantage when deliberating with the FASB because they are a part-time body that only meets five times a year. PCC members note that FASB members and staff have the benefit of regular and easy access to each other, which is invaluable in analyzing and reviewing current and proposed standards. PCC members have suggested that one way they could be better prepared for PCC meetings and stay engaged in current FASB projects is for there to be regular communication between the FASB staff and PCC members between PCC meetings (for example, monthly conference calls or webcasts).

Going forward the PCC will need to balance the demands of its role as an advisory body to the FASB on private company issues and its responsibility to identify and help resolve unanticipated private company issues that arise with current GAAP.

Stakeholders observed that for the PCC to successfully transition to being an effective advisory body to the FASB on private company issues, the PCC should (a) comprise the right blend of technical expertise and practical experience and (b) utilize a variety of processes to develop effective private company solutions and/or proposals on the FASB's current projects.

POSSIBLE IMPROVEMENTS

Based on that informal stakeholder outreach, the Trustees identified the following possible improvements to the PCC's structure and processes, some of which the PCC and the FASB have started to implement.

PCC Roles and Responsibilities

- The PCC should continue to establish working groups for select FASB projects and research topics so that PCC members can effectively advise the FASB on the impact that alternatives the FASB is considering might have on private companies.
- The PCC should continue transitioning from a body that primarily develops alternatives to existing GAAP to one that primarily provides input on active FASB agenda projects. During this phase, the amount of time the PCC spends on look-back issues should decrease as the amount of time the PCC spends in an advisory capacity increases. At the end of this transition phase, the PCC should be spending the majority of its time advising the FASB on its active agenda projects.
- The FASB and the PCC should determine the PCC's process for advising on and deliberating issues that are of interest to public companies/not-for-profit organizations and to private companies.
- The PCC chair should continue to ensure that PCC members use the Framework appropriately and consistently in developing alternative solutions for private companies and in providing advice to the FASB on active projects. PCC members need

to remain mindful that the relevance of resulting financial information is as important as reducing the cost or complexity of accounting standards.

PCC Outreach to Stakeholders

- PCC members should participate as their schedules allow in outreach performed by the FASB with private company stakeholders. PCC members should develop their own informal networks to broaden the input considered by the PCC and the FASB collectively.
- The PCC should consider whether and how to communicate to private company stakeholders the input that the PCC provides to the FASB on active FASB projects. For example, PCC working groups could provide substantive comment letters on proposed FASB standards.

PCC Agenda

- A small group comprising PCC members, FASB members, and FASB staff should discuss technical issues that arise that are of interest to private companies (and possibly also to public companies and not-for-profit organizations) and which group (the FASB or the PCC) is better suited to add the issue to its agenda. In other words, the FASB and the PCC should work together to coordinate their respective agendas.

PCC Meetings

- The number and frequency of PCC meetings should depend on its agenda and the FASB's need for input on private company

issues. Thus, there should no longer be a requirement that the PCC hold at least five deliberative meetings a year.

- There should be a consistent and continuous feedback mechanism among the PCC and FASB members (and staff) on active FASB projects, for example, regularly scheduled conference calls and/or web conferences between meetings.
- To ensure that PCC members have adequate time to prepare for meetings, the PCC and the FASB staff should consider when to distribute advance meeting materials and the amount of time between meetings.

PCC Membership and Terms

- In their search for future PCC members, the FAF Appointments and Evaluations Committee should continue to seek individuals that have the skills, expertise, and the resources necessary to advise the FASB on active projects, including the ability to identify practicability exceptions and to develop and analyze alternative solutions and proposals related to those projects. (As noted on page 2, the Trustees are beginning to consider an orderly rotation plan for PCC member terms and they will be seeking nominations for PCC members in the near future.)
- The FAF Appointments and Evaluations Committee should add a member to the PCC with experience in the surety industry.

QUESTIONS FOR COMMENT

The Trustees seek stakeholder views on any or all of the questions below.

1. A primary responsibility of the PCC has been to review and propose GAAP alternatives that will sufficiently address the needs of users of private company financial statements. Do you believe that the PCC has been successful in proposing alternatives within GAAP that address the needs of users of private company financial statements? Please elaborate.
2. Do you believe the PCC's review of areas of existing GAAP that require reconsideration for private companies (referred to as the "look-back" phase) is complete or almost complete? Please elaborate on what will indicate that the look-back phase (for existing GAAP) is complete.
3. Another key responsibility for the PCC is to serve as FASB's primary advisory body on the appropriate treatment for private companies on issues that the FASB is actively considering. Do you believe that the PCC has been effective in assisting the FASB in its standard-setting process for active projects? Please explain.
4. What improvements, if any, are needed to ensure the PCC is an effective advisory body to the FASB on issues that the FASB is actively considering?
5. Since the establishment of the PCC, do you believe that the FASB has been appropriately responsive to the needs of private companies and the recommendations from the PCC?
6. Do you believe that further changes to the standard-setting process for private companies are warranted? Please elaborate.
7. Do you have any suggestions regarding changes to the size, composition, term length, or responsibilities of the PCC?
8. When the Trustees established the PCC in 2012, the Trustees envisioned that their existing Standard-Setting Process Oversight Committee would assume the oversight responsibilities for the PCC after three years. Is there a reason that the Standard-Setting Process Oversight Committee should not assume those responsibilities in 2016?
9. What is your reaction to the possible improvements included in the prior section?
10. What other improvements to the PCC or its process would you suggest?

Please email written comments to PCCReview@f-a-f.org by May 11, 2015. Those without email should send their comments to "PCC Review," Financial Accounting Foundation, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116. Please do not send responses by fax.

All comments received will be part of the FAF's public file. The FAF will make all comments publicly available by posting them to the [FAF website](#). An electronic copy of this request for comment is available on the FAF's website.

EXHIBIT A**PCC Members (2012–2015)**

- **Billy M. Atkinson** (PCC Chairman)—past chairman of the National Association of State Boards of Accountancy (NASBA) from 2009–2010.
- **George Beckwith**—vice president and chief financial officer of National Gypsum Company in Charlotte, North Carolina.
- **Steven Brown**—vice president of US Bank in Portland, Oregon.
- **Jeffery Bryan**—partner, Professional Standards Group of Dixon Hughes Goodman LLP in High Point, North Carolina.
- **Mark Ellis**—chief financial officer of BabyGanics, PawGanics, PetLabs360 - KAS Direct LLC Businesses in Hicksville, New York.
- **Thomas Groskopf**—director and owner of Barnes, Dennig & Co., Ltd. in Cincinnati, Ohio.
- **Neville Grusd**—president of Merchant Financial Corporation in New York, New York.
- **Carleton Olmanson**—managing principal of GMB Mezzanine Capital in Minneapolis, Minnesota.
- **Diane Rubin**—retired partner of Novogradac & Company LLP in San Francisco, California.
- **Lawrence Weinstock**—vice president – Finance of Mana Products, Inc. in Long Island City, New York.

