



May 1, 2015

VIA Email

PCC Review
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RE: Request for Comment: *Three-Year Review of the Private Company Council*

INTRODUCTION

The National Venture Capital Association (“NVCA”) represents the vast majority of American venture capital under management.¹ Venture capital funds invest across the spectrum of company stages of development, typically from early stage startup through IPO or acquisition.

NVCA has supported the FAF throughout the many efforts to ensure that GAAP continues to meet the needs of investors in private companies. We vigorously

¹ Venture capitalists are committed to funding America’s most innovative entrepreneurs, working with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. As the voice of the U.S. venture capital community, the National Venture Capital Association empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community’s preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its nearly 400 members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

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supported the development of the Private Company Council (“PCC”). We also commented on the Private Company Decision Making Framework and the Definition of a Public Business Entity in order to ensure that efforts to adapt GAAP to private companies remain relevant both to venture capital funds and to the companies in which they invest. In addition, Members of NVCA’s CFO Task Force have individually served for years on various voluntary accounting groups, including the Private Company Financial Reporting Committee, the FASB-AICPA-NASBA Blue Ribbon Panel the FASB Small Business Advisory Committee.

As we have often noted in this context, venture capitalists are both users and preparers of private company financial statements. Venture capital funds are nearly all private entities and they invest primarily in private companies. In addition, some NVCA members manage funds of funds and use venture capital fund financials. Therefore, our comments come from a variety of perspectives and reflect significant experience with both the FASB and with volunteer organizations working in the accounting standards field.

We have organized our comments as response to the Board’s Request for Comment (“RFC”) issued in February and set them out here.

- 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.*

We believe that the PCC has been effective in addressing its mission and that its mission should remain the same.

- 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.*

During the “look-back” phase there have appropriately been only a few areas where the PCC’s efforts have resulted in change in recognition and measurement. Any modification of an existing standard on recognition and measurement necessarily faces a high bar. While private company accounting can often be improved through simplification, once people have learned to work with a rule, the introduction of a simpler alternative can itself introduce new complexity. Having said that, we believe that the PCC should remain vigilant to opportunities to change

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existing GAAP in ways that improve its application to private companies and to meet the needs of their financial statement users in ways that are more cost effective. Such opportunities may emerge as the FASB and the PCC continue their outreach efforts or as economic circumstances highlight existing issues that have not yet been identified.

In particular, we think many existing disclosure requirements remain ripe for scrutiny and possible simplification. For example, some of the disclosure requirements for fair value are of little value as applied to assets in the Level 3 category. The PCC's mission should continue to recognize that users of private company financial statements have quite different information needs than public company users. What might be relevant disclosure for a public company may be less relevant for a private company but equally costly to prepare and audit. Thus there may be alternative disclosures better suited to private companies that would be more cost effective.

- 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.*

We believe that the PCC's impact on the FASB has been quite positive. In addition to the specific projects mentioned in the RFC, we think both the PCC and the FASB should be commended for the increased integration of private company considerations into the FASB's rulemaking process.

- 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?*

The most important needed improvement is addressing the "inherent informational disadvantage," noted at RFC p. 8, that PCC member face in deliberations with FASB members and staff. As noted, this difficulty is "inherent" to part-time groups interacting with their full-time counterparts. In NVCA's comment letter on the draft PCC charter, we encouraged the FAF to provide dedicated staff to the PCC in order to address this disadvantage. However, we respect the limits that FAF/FASB funding sources impose upon the resources available to support the PCC. Nonetheless, regular communication from and ready access to PCC/FASB staff is essential to the proper function of the PCC.

The FASB staff is to be commended for its efforts to prepare relevant briefing papers and other materials in support of the PCC to date. We see this level of effort as essential to the ongoing needs of a well-functioning body, particularly one that is

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charged with the responsibilities of the PCC. While the goal of having dedicated staff may be neither feasible nor optimal, the inherent disadvantages noted in the RFC must be recognized and addressed if the PCC is to function with the level of independent judgment that its structure and mission suggest it should have. A number of the suggestions in the RFC, such as monthly conference calls or webcasts, would be positive steps and valuable additions to the PCC-FASB process.

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?*

Yes. As noted on pages 6 and 7 of the RFC, the FASB has played its proper role in approving the PCC's rulemaking initiatives. In addition, the FASB has been more sensitive to issues like complexity in standards that disproportionately impact private companies and foster a different cost-benefit balance. As a consequence, the FASB has taken the best work of the PCC and considered whether similar consideration should be given to all of GAAP. This positive change in the FASB is an important, and perhaps most significant reason for maintaining the status and mission of the PCC.

6. *Do you believe that further changes to the standard-setting process for private companies are warranted? Please elaborate.*

No. As noted in our responses to previous questions, we urge the FAF to allow the PCC to continue its good work with few major changes. While the FAF should always strive to improve the effectiveness of all the organizations it oversees, the success of the PCC remains nascent. We therefore, encourage the FAF to allow time for the cultural impact of the PCC to fully embed in the FASB and its staff.

In this vein we wish to respond to the language in pages 8-9 of the RFC which says, "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." This statement in isolation is axiomatic and we broadly agree with the emphasis in the Framework on relevance to users as the primary measure of the "benefit" in "cost-benefit" analysis. However, we hope that this statement in the RFC does not imply that close scrutiny of cost is somehow at odds with providing relevant information. In evaluating costs and benefits, it is important to keep in mind that in some situations, the cost for a small private company is not materially different from the cost for large public companies, yet the benefit to the user can be more elusive, particularly where the information can be obtained through other means. For our part at least, excessive cost is unnecessary cost -- unnecessary because it results in information that is either not relevant at all or its cost is widely

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disproportionate to the user benefit. The assessment of relevance can in fact be enhanced by cost-benefit analysis. We believe that it is critical to ensure that financials are really useful to investors and other users, not just potentially useful in the future or useful to some narrow set of constituents. While it is true that the PCC, like the FASB should always focus on the relevance of the information to the user, we hope that PCC members will continue to freely raise issues of cost and advocate for the least costly method of fulfilling user needs.

7. *Do you have any suggestions regarding changes to the size, composition, term length, or responsibilities of the PCC?*

The plans regarding structure of the PCC outlined in the RFC seem appropriate.

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?*

No.

9. *What is your reaction to the possible improvements included in the prior section?*

Most of the Possible Improvements noted on pages 8 and 9 of the RFC are constructive and would seem likely to improve the overall effectiveness of the PCC. In particular, we are quite supportive of efforts to increase the outreach efforts of the PCC both on its own (as with the PCC's Private Company Town Hall Meetings) and as part of the broader and ongoing outreach efforts of the FASB. In addition, the suggestion that PCC members might form working groups for various purposes seems quite promising. Such working groups could, for example develop outreach efforts, liaise with staff on position papers or do more in-depth analysis on specific issues.

As expressed above in response to questions 2, 4 and 6 we are concerned at the suggestion that the PCC is "transitioning from a body that primarily develops alternatives to existing GAAP to one that primarily provides input on active FASB agenda projects" [emphasis added]. The PCC should certainly advise the FASB on active agenda projects. Consistent with the idea that this is the area where the PCC can be most constructive, advising the FASB should be a significant focus. However, the PCC's independence from the FASB is essential to its ability to best serve the interests of the users, preparers and practitioners working with private company financial statements. Therefore, we do not feel it is in the best interest of the FAF or

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FASB to be seen as restricting the PCC agenda to only (or even primarily) to FASB agenda projects. Having said that, as suggested on page 9 of the RFC under the caption PCC Agenda, we agree that the PCC's agenda should be the product of consultation and collaboration with the FASB.

Similarly, we have concerns that the PCC might no longer have a minimum of five meetings per year. The PCC was established to facilitate active engagement between private company users, preparers and practitioners. It was therefore empowered to establish an agenda relevant to private companies and to be more energetic and more assertive than other advisory boards such as FASAC or the SBAC. While it is possible to achieve some level of effectiveness with fewer formal meetings, it is hard to imagine that the level of engagement among the PCC members and the FASB can be any less than it has been if the PCC is to remain an effective body. In the event that the number of formal meetings is curtailed (to perhaps no less than three), we would suggest that this be done simultaneous with a commitment to have regular update calls, working group sessions, additional outreach meetings and other informal interactions with the FASB and related education sessions.

10. What other improvements to the PCC or its process would you suggest?

We are encouraged that the FAF has initiated a search for nominees to serve on the PCC. To the extent possible, the FAF should use this as an opportunity to develop a broad network. Such a network should consist of professionals who could be available in the future either as PCC members or as industry- or topic-specific resources upon whose expertise the PCC could draw in the future as projects develop.

Conclusion

NVCA appreciates the opportunity to participate in the FAF's review process. We stand ready to work with the Board and the staff on this and other important matters. Please feel free to contact me at 202 864 5925 or bfranklin@nvca.org or John Taylor, NVCA Head of Research at 646 571 8185 or jstaylor@nvca.org.

Sincerely yours,



Bobby Franklin
President & CEO