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The Board of Trustees
Financial Accounting Foundation
401 Merritt7
PO BOX 5116
Norwalk, Connecticut 06856-5116

RE: Three-year Review of the Private Company Council

Dear Trustees:

We appreciate the opportunity to respond to the request for comment on the three-year review of the Private Company Council's ("PCC's") effectiveness, accomplishments, and its future role in setting standards for private companies. We support the FAF and FASB's efforts in giving greater consideration in the standard-setting process to the needs of users of financial statements of private companies. While we believe the PCC has been effective in identifying areas to reduce costs for some private company preparers, we are unclear as to its effectiveness in (a) identifying and developing standards that meet *unique* needs of users of private company financial statements, (b) advising the FASB on its active projects, and (c) evaluating the potential increase in costs and complexity for the broader financial reporting system as a result of introducing accounting alternatives. We also believe:

- The FAF should conduct further research on PCC standards after their effective dates to evaluate if, and to what extent, private companies are using the alternatives (and if not, why not) and how users are being affected by the alternatives; and

- The PCC and the FASB should add a project to their agendas to address the need for prominent disclosure when a private company is applying one or more private-company-only alternatives.

Evaluating Private Company Financial Statement User Needs

Consistent with our January 2012 letter to the FAF on the proposed plan to establish the PCC, we believe the primary consideration in developing private company alternatives should be whether those alternatives serve the differential needs of private company financial statement users. While each of the PCC standards issued so far address the consideration of private company user needs in varying degrees, it is not always clear to us how the *differentiation* in needs between public and private company users has been identified and analyzed or how the Private Company Decision-Making Framework (the Framework) was used in concluding that providing a specific alternative is appropriate. We believe an essential step in determining whether private company alternatives are appropriate is identifying the specific information needs of investors, creditors, and other external users of *both* public and private company financial statements so that those information needs can be compared. Only *differential* user information needs should result in recognition, measurement and disclosure alternatives for private companies. If broader user gaps are identified, those issues should be added directly to the FASB's agenda.

We believe a more robust and transparent analysis of user needs and identification of differential needs is critical to the FASB's ability to establish the highest quality standards for private companies that result in relevant information for their financial statement users. A more vigorous analysis of user needs also would streamline standard-setting by avoiding situations where issues are first researched, deliberated, and addressed by the PCC and then later deliberated by the FASB for application to all companies. In addition, more robust discussion and explanation in the Basis for Conclusions (particularly in exposure documents) of the PCC's and the Board's consideration of the differential needs of users of private company financial information and how the PCC and the Board applied the Framework in developing a proposed alternative would assist constituents in evaluating the proposals and providing the PCC and the Board with useful comments on proposals.

PCC's Advisory Role in Active FASB Projects

We support the PCC's advisory role in the FASB's active projects; however, it is unclear to us in reading the Basis for Conclusions of recent FASB standards the extent to which the PCC has been involved. While some active FASB projects have been discussed at PCC meetings and some private company issues have been discussed at FASB meetings, we believe the PCC's involvement and the Board's consideration of its views on private company considerations should be more transparent in the standard setting process. In addition, the Board should consider whether it should clarify the PCC involvement in its projects within the FASB's operating procedures. Without greater transparency into the PCC's ongoing involvement in the FASB's active projects, it is difficult to assess its effectiveness in this effort.

Evaluating the Costs of Accounting Alternatives

While cost often is primarily evaluated relative to preparers, we believe the cost-benefit analysis of any alternative also should consider the potential incremental costs to the broader financial reporting system due to lack of comparability and increased complexity caused by accounting alternatives and options. Lack of comparability can arise (a) across periods for an individual private company when the alternative is not applied retrospectively, (b) across similarly situated private companies when some, but not all private companies, elect available alternatives, and (d) across similar entities within a sector when some are private companies applying the alternatives, some are private companies not applying the alternatives, and some are public business entities for whom the alternatives are not available. Although the PCC alternatives may reduce the complexity of applying particular provisions of specific standards for some companies, the introduction of alternatives and options may increase complexity in the overall financial reporting system, may cause confusion among financial statement users, and may be inconsistent with the underlying conceptual basis for existing standards.

We believe the PCC and FASB should incorporate in its cost-benefit analysis (and specifically discuss in the Basis for Conclusions) the broader complexity introduced by offering accounting alternatives, even if that alternative may narrowly simplify the application of a particular accounting standard for some subset of companies. We believe the broader complexity in offering alternatives in accounting standards affects *all* constituents in the financial reporting system, not just those eligible for those alternatives.

Election of Private-Company Alternatives and Effect on Users

While it is currently still early in the adoption cycle for the existing alternatives, we believe the FAF's ongoing assessment of the PCC's effectiveness should include research as to what extent the private company alternatives are being adopted (or what the underlying reasons are for not adopting) and what effect the alternatives have had in practice on the usefulness of the financial statements (e.g., is the application of the alternative eliminating or adding user effort in analyzing private companies). We also believe this analysis would be a constructive step in the ongoing standard-setting process by providing the PCC and the FASB with additional information regarding private companies' interest in the alternatives developed by the PCC. The Basis for Conclusions for future alternatives should address how that information was considered in the PCC's and FASB's evaluation of private companies' appetite for the alternative. The Basis for Conclusions also should include expanded discussion of how the alternative is practically expected to affect financial statements users (e.g., is use of the alternative transparent for users, how does the alternative presentation and disclosure maintain a level of decision-usefulness for private company financial statement users at least equal to that of existing GAAP absent the alternative).

Disclosure about the Use of Private Company Alternatives

Existing disclosure requirements do not specifically address presentation and disclosure requirements to alert users of the financial statements that a private company is using alternatives in GAAP for private companies. Whenever a company applies alternatives allowed only for private companies, we believe that the financial statements should include prominent disclosure of the fact that the financial statements are prepared in accordance with generally accepted accounting principles for private companies. That disclosure should include a description of the accounting alternatives allowed for private companies that the entity has elected to apply. Those disclosures would be incremental to the specific disclosure requirements of the private company ASUs. We believe the PCC and the FASB should add a project to their agendas to address the need for prominent disclosure when a company is applying alternatives for private companies.

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If you have any questions about our comments or wish to discuss matters further, please contact Mark Bielstein at (212) 909-5419 or Angela Storm at (212) 909-5488.

Sincerely,

KPMG LLP