

# Anglin·Reichmann·Snellgrove & Armstrong P.C.

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## RE: PCC Review

We appreciate the opportunity to comment on the Private Company Council's (PCC) effectiveness, accomplishments, and its future role in setting standards for private companies. We strongly support the PCC and its efforts to date in improving financial reporting for private companies and the users of its financial statements.

Anglin, Reichmann, Snellgrove & Armstrong, P.C. (ARSA) is an accounting firm of 45 professional staff, including 27 CPAs, offering a full range of accounting and advisory services in the firm areas of Audit and Assurance, Tax Advisory Services, and ARSA Business Solutions. We serve individual and business clients in numerous and varied industries including: Government Contracting, Information Technology, Biotechnology, Manufacturing, Real Estate, Construction, Professional Services, and Nonprofits. The PCC's work is of utmost importance to our firm due to its direct consequential impact on our client base and on our firm's responsibilities to serve as practitioners and trusted advisors for our clients.

The following are our responses to the 10 questions submitted by the Trustees:

*Question 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.*

Accounting Standards Update (ASU) No. 2014-02, 2014-03, 2014-07 and 2014-18 effectively reduced compliance cost to private companies without decreasing relevance to financial statement users. However, over a three year period only four ASUs were issued by the PCC. While additional look-back is required, the PCC should advise on common projects or areas of concern with the Financial Accounting Standards Board (FASB) rather than independently consider common initiatives as part of the look-back phase. As part of the look-back phase, the FASB should remain prudent in finalizing common projects with the advice of the PCC.

*Question 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.*

There is still more that can be done in current GAAP before completing the look-back phase. The PCC captured the low-hanging fruit in its first four ASUs; however, there are still several existing items that need to be addressed in the look-back phase, such as the disclosure framework and stock-based compensation. Several of these remaining areas of concern are part of the FASB simplification initiatives aimed at reducing complexity for both public and private companies.

Once the look-back phase is complete, the PCC will consider current GAAP in determining the impact on private companies of future ASUs. As a result of new standards and/or changes in the business environment, it is likely that unanticipated private company issues will occur. 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 private company issues within current GAAP. Attention should be placed on unsolicited comment letters relating to private company concerns, as well as comment letters on future ASUs when exposed, to assist in determining the optimal balance between the two roles and identify concerns of the private company stakeholders.

*Question 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.*

The current integration of the PCC into the FASB's active projects has improved the relevance of recent ASUs to private companies. As the look-back phase approaches completion, the PCC should continue to shift its time and resources to advising the FASB on private company concerns. The shift in resources will further increase the PCC's ability to advise the FASB in its standard-setting process for active projects.

*Question 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?*

Establish an orderly rotation to maintain board continuity. Because the PCC is subject to endorsement by the FASB rather than an independent board, it is important that the FAF ensure that the PCC remains empowered to represent and act on private company considerations. Full time FASB staff should be assigned to the PCC to facilitate projects between meetings.

*Question 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?*

The ability of the PCC to focus on private companies allows the FASB to execute its duties for all entities and users while being responsive to private companies and its users. An excellent example of the FASB's collaboration with the PCC was the issuance of ASU No. 2014-10 Development Stage Entities (Topic 915) to reduce the cost and complexity associated with the incremental reporting requirements for development stage entities (both public and private).

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

We believe the current standard-setting process for private companies is successful. The FASB needs to maintain transparency around the decision-making process with both the PCC and stakeholders regarding accepted/rejected accounting alternative proposals. This is necessary to ensure that the process continues to consider private company concerns.

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

The proper governance structure is instrumental to the effectiveness of any board. The PCC is of sufficient size to interject different perspectives into debates. While the composition is diverse, we are concerned about the skew towards practitioners and owners/management of large firms and private companies. Although it would not be wise to rigidly structure the board composition, it would be beneficial to have a member that is a practitioner from a firm with under 75 CPAs or representation from a private company with assets/revenue under \$50 million (these specific numbers are illustrative of our concern, not a recommendation of specific criteria). Alternatively, a standing advisory group to the PCC would be beneficial and could increase the diversity of representation without increasing the size of the PCC. It is difficult to provide advice on private company concerns unless there is representation from entities and practitioners who have similar access to resources as the majority of private companies. Also, because of the interaction between the FASB and the PCC, it would be optimal if the term lengths and rotation occurred simultaneously to maximize working relationships and board continuity.

*Question 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?*

As a new process, additional oversight of the PCC's standard-setting process was required. Over the first three years, the process has been defined and refined; thus, the existing Standard-Setting Process Oversight Committee should assume responsibilities to maintain comparability, effectiveness and efficiency in the standard-setting process among the FASB, the PCC, and the Governmental Accounting Standards Board.

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

With two exceptions, we generally agree on the possible improvements provided.

We caution the FASB and the PCC to be diligent in determining the PCC's process for advising on and deliberating issues that are of interest to public companies and NFP organizations. The FASB is responsible to all entities and users, so the involvement of the PCC in issues not affecting private companies would essentially change the FASB from a board of seven trying to reach a majority consensus to a board of 16-19 members trying to reach a majority consensus. Incorporating NFP standard-setting into the PCC's agenda could skew the composition of the PCC causing it to lose focus on private company concerns.

We are concerned that active engagement between the FASB and the PCC will deteriorate if the number of meetings is reduced. There are numerous unresolved projects/concerns requiring the PCC's input that will not be timely addressed if the meeting schedule is reduced.

*Question 10: What other improvements to the PCC or its process would you suggest?*

The PCC should not actively engage, as a PCC agenda item, in standard-setting for public companies or NFP organizations; however, it should continue to be a springboard for the FASB's efforts to reduce complexity in GAAP for all types of organizations.

Regarding FASB project PCC Issue No. 15-01, Effective Date and Transition Guidance, we support the staff recommendation that the PCC provide private companies with an unconditional option to make a first-time election of a private company alternative. It is counterproductive to impose additional requirements on private companies to adopt accounting alternatives solely because their circumstances do not coincide with the effective dates of the private company alternatives. Under this approach, subsequent changes in accounting policy will still be subject to a preferability assessment, which will prevent a private company from switching back and forth between accounting alternatives to achieve a desired financial reporting result. Because this issue affects all current and future accounting alternatives from the PCC, we felt it merited comment in this letter.

In its short existence, the PCC has established itself as an integral part of the standard-setting process. Its work is essential to effectively balance the compliance cost and relevance of accounting standards for private companies and its financial statement users. Thank you for allowing our firm the opportunity to comment on this matter.

If you have any questions regarding our comments, please contact Jason Miller at (256) 533-1040.

Sincerely,



ANGLIN, REICHMANN, SNELLGROVE & ARMSTRONG, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS