



May 15, 2015

Financial Accounting Foundation
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Re: Private Company Council Review

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide its input to the Financial Accounting Foundation on its assessment of the effectiveness, accomplishments, and future role of the Private Company Council (PCC). The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators. The committee's comments on the review questions included in the assessment are noted 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.

The committee agrees that the PCC has proposed several significant GAAP alternatives that address some of the needs of users of private company financial statements. However, there were varying opinions as to the effectiveness of the process of proposing alternatives within GAAP. These opinions are noted below. However, the committee believes that additional work needs to be done. See comments at question #2.

- Providing elective alternatives is not making financial statements of private companies uniform, and is not making GAAP a uniform set of standards for all entities as frequently proclaimed by the FASB. Measurement differences and elections as to which ones to apply do not allow the standards to be uniform or comparable. What the PCC is effectively doing is creating "little GAAP" for private companies. While this approach is better than forcing private companies to comply with public company GAAP, the creation of alternatives that a private company can pick and choose from impacts comparability and forces users to understand and evaluate the nature of each alternative selected. The continued application of these



alternatives only serves to undermine the credibility of the financial statements, and is not an effective way to deal with private companies.

At the same time, there is no question that private companies have different characteristics than public companies, and private company users are focused on different types of financial information than that of public companies. The need for differences between public and private accounting and reporting has grown to a point where the standards being promulgated are not in touch with private company needs and salient financial reporting issues. As a result, many accounting firms that service only private companies are not up to speed with all of the FASB accounting and reporting requirements, and are following a hybrid group of standards that is not in accordance with any current standards or reporting framework. In some instances, many of the current FASB standards are being ignored completely. It is increasingly unclear whether the FASB in its current format can respond to both public and private company needs at the same time, and may not be aware of the private company circumstances and how application of the current FASB codification affects private companies on a daily basis.

Consequently, the financial statements of private companies should not be based on public company GAAP. Many committee members support the creation of a separate standard-setting body for private company financial statements, mirrored after the Canadian private company standard-setting body, and the establishment of a separate set of accounting and reporting standards for private companies. This approach would limit alternatives and provide users with a focused standard-setting model that enable them to evaluate financial statements in a consistent and comparable manner.

- Others on the committee believe that the PCC has made significant progress since its formation, and that the private company decision making framework provides a good foundation to standard setting to meet the needs of private companies. These committee members note that it would difficult for financial statement preparers and users to keep up with two separate sets of financial reporting rules that a separate standard-setting board would necessitate. Having two sets of rules would become increasing difficult for financial statement users to keep track of over time, because it is inevitable that the separate sets of standards would slowly diverge. The GAAP alternatives proposed by the PCC are a good compromise.
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.



The PCC has made progress on the look-back phase. However, the current PCC actions are only the tip of the iceberg, and are woefully insufficient in solving the need for meaningful financial statements for private companies at a reasonable cost to the private company community. Many other issues, such as fair value, leases, intangible assets, distinguishing liabilities from equity, consolidations, stock compensation, revenue recognition, financial instruments, deferred income taxes, treatment of tax positions, and business combinations especially as it relates to valuation of nonfinancial assets and liabilities all require major overhaul for appropriate application to private companies. We understand that the PCC and the FASB conducted outreach on uncertain tax positions, but decided to take no action on this topic. Given that many private companies are pass-through entities, we encourage the PCC to reconsider this issue. We also encourage the PCC and FASB to continue to look at other areas for improvement, including those that might have had specific narrow-scope issues. For example ASU 2014-07 addressed leasing arrangements under common control, however we support efforts to further expand VIE alternatives for private companies.

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 committee does not see evidence that this has been a primary objective of the PCC. For example, issues that have little significance for private entities but will be expensive and difficult to apply include applying the new revenue disclosures and applying the proposed capital lease guidance. Additionally, the recent ASU on accounting for debt costs does not seem to take into account the users of private company financial statements, who rely on traditional bank financing and have historically capitalized loan cost. The new standard requiring these costs to be accounted for as a discount or premium does not meet the needs of users. These issues and potential private company alternatives seem to have received little attention from the PCC. We believe the PCC should have increased influence on the standard-setting agenda, including the FASB's simplification initiative. While the committee supports changes to address the needs of private companies, any standard-setting process that continually requires the implementation of a standards, only to subsequently reverse course by scoping out private companies, is ineffective.

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 FASB has undergone tremendous change over the last few years, including the expansion of the composition of the FASB board from 5 member to 7 and the creation of the PCC. The committee encourages the FASB to continue to collaborate with the PCC and to ensure that the standard-setting activities consider the needs of private entities.



Some on the committee note that the increase in income tax basis financial statements and the apparent success of the AICPA's financial reporting framework for small and medium entities suggests that the current model is not working effectively. The PCC should expand its outreach to smaller and medium-sized accounting firms, as well as state societies' accounting and auditing technical committees, to better understand the difficulties firms and their clients are having applying public company GAAP. Periodic town hall sessions are not enough; PCC members need to visit and be in frequent communications with these firms and societies.

In addition, the PCC and the FASB should provide sufficient guidance on PCC topics including outreach to other stakeholders. For example, ASU 2014-07 does not define "common control," which has only been addressed by the SEC. The PCC would have benefitted from either providing a definition or working with other stakeholders, such as the AICPA, to develop parameters. The PCC also issued an ASU on hedging that requires the hedge to be "at or near zero at inception." Given the lack of clarity on derivatives, market-based guidance would have been beneficial.

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?

Needs of private companies – Some on the committee believe that the answer to this is mixed. For example, the alternatives for variable interest entities are good. However, the alternative for goodwill (and other intangibles) fails to take into account accounting complexity. Since goodwill (and other intangibles) are amortized over 15 years for tax purposes, it is unclear what purpose it served to create an alternate 10 year life. See also the committee comments to question #2 above.

Recommendations from the PCC – Yes, the committee believes the FASB has been responsive. However, we encourage the FASB to continue to work together with the PCC to meet the needs of private company users, including revisiting topics as part of a boarder project for all companies (including those topics that may have been addressed by the PCC).

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

See response to question #1. PCC should also be involved in proposed ASUs.

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



As discussed at question #1, some committee members recommend that the PCC be replaced with a private company standard-setting board. Otherwise, the PCC should always have representation from small to mid-size CPA firms who deal daily with private companies and their users, as well as other users of private company financial statements. The committee also believes that the PCC would benefit from having additional practitioners from high-quality middle market firms, and suggests increased outreach to private company-centric stakeholders, such as the AICPA Technical Issues Committee, AICPA technical hotline, secondary markets, middle market private equity firms, as well as various state societies.

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?

Given that the FASB will be finalizing the convergence agenda with the IASB in 2015 and 2016, and that key standards such as revenue recognition and lease accounting were jointly developed without significant input from the PCC or focus on private companies, we encourage the PCC to continue to operate separately from the Trustees for an additional three year period of time. We believe that the PCC should have the autonomy to address practice issues that may arise from these new standards.

9. What is your reaction to the possible improvements included in the prior section?
 - Improvement 1 – The committee believes this should include PCC outreach to smaller and medium-sized accounting firms and accounting and auditing technical committees at state societies.
 - Improvement 2 – See response to question 3.
 - Improvement 3 – It appears FASB’s simplification project is already addressing these issues.
 - Improvement 4 – As far as reducing cost and complexity, yes. The frequency of alternatives, however, will reduce the effectiveness and usefulness of the financial information communicated.

Finally, if the PCC process continues, the committee believes it is critical that the private company framework continue to be the foundation for standard setting. In addition, we have noticed that the board has had robust debate in many of the PCC alternatives, as noted in the basis for conclusions. We encourage the FASB to continue to debate the merit of many of the issues identified for broader application.

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

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We encourage the FASB, as it wraps up the convergence projects with the IASB, to ensure that private company financial reporting needs are an area of focus. See response to question #1.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "Lisa A. Ritter".

Lisa A. Ritter, CPA
Chair, PICPA Accounting and Auditing Procedures Committee