Remarks of Russ Golden
Chairman, Financial Accounting Standards Board
Private Company Town Hall
Georgia Society of CPAs Southeastern Accounting Show
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Good morning, everyone. Thank you for inviting me here today. And special thanks to the Georgia Society of CPAs for allowing us to host today's town hall meeting as part of the Southeastern Accounting Show.

Today's town hall is one of several hosted by the FASB and the Private Company Council at locations around the country. The event gives us a chance to share information about new accounting standards, answer your questions, and hear your views. It also provides you the opportunity to meet our private company team, led by Jeff Mechanick and Mike Cheng—as well as FASB Member Harold Monk, who joined our Board in January and who brings to his role extensive experience in private company financial reporting.

And I hope it gives you a chance to reflect on the importance of your role as accountants in the capital markets.

For all its flaws—and they've certainly made news in recent years—modern market capitalism remains the single most efficient generator of social wealth and prosperity.

Nevertheless, it is a fragile system because it depends fundamentally on trust. If investors or lenders do not or cannot trust the numbers they see when analyzing a business; if company management has free rein to massage numbers based on narrow self-interest; the entire system collapses, and quickly.

As accounting professionals, you are the guardians of that trust and the single most important line of defense to ensure our economy can continue to grow and generate jobs and wealth. That's a pretty noble reason to get up and go to work in the morning, so I encourage you not to lose sight of it.

Nor should we lose sight of who we're all here to serve—our number one customer—the financial statement user. The investor. The lender. The person who decides where to put capital and other resources based on the information in the financial statements that you prepare, or audit.

We owe it to the investor to ensure financial reporting gives the most faithful representation of economic reality. And the FASB is here to support you in that endeavor.

We do that by continually improving Generally Accepted Accounting Principles—GAAP—in three ways:

- First and foremost, by developing standards that improve the relevance of information to investors and other users
- Second, by simplifying standards that are unnecessarily complex, and
- Third, by reducing unnecessary cost in the system.

That said, you should continue to expect the FASB to allow for differences in standards for nonpublic companies…

- When the accounting is preferable (that is, more relevant)
- When the disclosures are not necessary because investors have access to management and
- When the nonpublic company needs more time.

Whether you realize it or not, you have helped the FASB make financial reporting better in these areas. As private company preparers and practitioners, you told us our standards failed to provide relevant information. You told us when standards were too complex. And you told us when you needed better support in implementing new standards.

We listened—and we learned. Consequently, we've improved how we engage with all stakeholders—including not-for-profit organizations and employee benefit plans. We launched a simplification initiative to bring greater clarity to financial reporting for public and private companies and organizations. And we developed more educational resources to support your implementation efforts.

I'm the first to admit that, in the past, our process wasn't as inclusive as it could have been. We have been working to change that. And I believe we're making progress, thanks to the Private Company Council—the PCC. Our work with the PCC has inspired what I call a "cultural evolution" at the FASB—one that acknowledges that finalizing standards that are better is better than working towards standards that are perfect standards. After all, only completed standards that stakeholders can understand and consistently implement improve financial reporting.

Before I go on, please note that what I am about to say are my views and only my views.

First, I'll talk about our work with the PCC, its accomplishments, and its continued importance in ensuring private company concerns are addressed in the Board's decisions.

Then, I'll talk about how our work with the nonpublic company community has contributed to a new mindset among all FASB members. This includes a shared understanding of the differences between public and nonpublic companies and not-for-profit organizations, and when those differences do—or do not—justify accounting alternatives. I'll provide some examples of what this looks like.

Finally, I'll talk about what we're doing to make your job easier when it comes to understanding and implementing our standards.

I'll start with the Private Company Council.

In late 2015, the Financial Accounting Foundation issued its three-year review of the effectiveness of the PCC. Its findings and recommendations were based on, among other things, input received from diverse private company stakeholders.

The review confirmed that the PCC had successfully addressed the needs of private company financial statement users, and reduced costs and complexity for preparers. In other words, the process has worked.

As part of that review, the Foundation's Board of Trustees recommended improvements to the PCC's operating procedures. They included increasing the PCC's advisory role on FASB projects in progress, establishing a PCC Technical Agenda Consultation Group, and increasing the PCC's communication with stakeholders.

These changes are being implemented—and are adding significant value to the FASB. Through its advisory role, the PCC is becoming more active during the standard-setting process, before the standard is issued, reducing the need to fix it later.

The transition to this advisory role is working because PCC members—past and present—share a vision and perseverance that have enabled the group to embrace this next stage of development.

In its relatively brief existence, the PCC has evolved a culture that transcends any individual member. A culture focused on improving financial reporting. A culture that encourages collaboration among members and with the Board.

PCC members created that culture. Their commitment laid the groundwork for the PCC's seamless transition of leadership, membership, and focus.

Now in its second phase, the PCC is focused on proactively addressing private company issues as part of the standard-setting process. PCC Chair Candy Wright has done an outstanding job of leading this transition and building on the early successes of her predecessor, Billy Atkinson.

Last week, the Foundation announced the appointment of four new PCC members—Jeremy Dillard, Michael Minnis, Dev Strischek, and Frank Tarallo. They'll replace three of the PCC's charter members—Jeff Bryan, Steve Brown, and Larry Weinstock—whose terms conclude at the end of this year. It's a testament to the success of the PCC that we have such an experienced group of professionals to step into these roles. And Jeff, Steve, and Larry are to be commended for contributing to that.

It is difficult to overstate the importance of the PCC perspective when the FASB meets as a board. PCC insights make us sharper, more focused, and more sensitive to the needs of these stakeholders—and to areas of GAAP that may be unnecessarily complex.

It seems obvious that a simpler solution that provides the same result is better, but the truth is that the FASB has not always chosen that path.

Sometimes we make accounting too hard, even for highly technical accounting professionals—and that hurts everyone, especially private companies that may not have the resources of larger firms. So an attitude of simplicity can help everyone focus on what is truly important.

Like most things in standard setting, though, adopting that attitude was not so simple. And that has required a "cultural evolution" within the FASB itself.

Prior to the creation of the PCC, the FASB approached our work with the inherent view that our stakeholders—public companies, private companies, and not-for-profits—are the same.

Now, we all know this is not the case. But our reluctance to accept differences made us reluctant to consider alternatives that would improve financial reporting for those who use private company financial statements. Predictably, our private company stakeholders were not happy—and you let us know it.

In our defense, our objective was (and still is) to develop the most comparable standards possible—across industries, organizations, and yes, even nations. And we still remain focused on developing standards that never compromise or diminish the quality of information that is important to users.

But, as we also learned when attempting to converge international accounting standards, differences across nations DO exist. We need to acknowledge those differences and accept that we may not come to the exact same answers. In standard setting, one size does not fit all.

This also applies to public and private companies—and not-for-profit organizations. The PCC contributed to our understanding of when accounting should be the same for private companies, and when it should be different. The PCC helped us understand critical financial reporting issues faced by private companies and to identify potential solutions. And our Not-for-Profit Advisory Committee helped us understand where differences exist in that sector.

Informed by these views, the Board came to appreciate that not all modifications can or should be applied across all organizations. For example: we decided that differences should exist between public and private companies in leasing arrangements under common control. Consequently, the Board is considering expanding that option to all common control arrangements when certain requirements are met. The comment period on that proposal concludes on September 5.

Another example is the leases standard. During our extensive outreach on that project, an overwhelming majority of stakeholders told us they think that leases should be recognized on the balance sheet. The Board agreed, and that's why the new standard requires <u>all</u> organizations—public companies, private companies, and not-for-profit organizations—to include lease obligations on the balance sheet.

However, the PCC expressed private company concerns about the impact that additional liabilities on companies' balance sheets would have on debt covenants and on accounting judgments—particularly among smaller companies that have debt covenants based principally on debt-to-tangible net worth ratios.

The FASB undertook extensive research—including outreach with lenders—to understand the issue more fully. Ultimately, we decided that most lease liabilities should be characterized as operating obligations in the financial statements rather than obligations that are equivalent to debt. This decision recognizes that most lease obligations are not treated like debt in situations such as bankruptcy of the lessee. We also provided an extended effective date so that covenants could be changed in due course.

In June 2016, we issued our final standard on credit losses, which requires banks and other financial institutions to recognize and report loan losses in a timelier manner.

However, the PCC and our Not-for-Profit Advisory Committee pointed out the complexity of certain disclosures. For that reason, the Board did allow specific disclosure relief to certain private companies and not-for-profit organizations. The Board also delayed the effective date for private companies and not-for-profit organizations.

In 2016, the Board also issued its final standard on recognition and measurement of financial instruments. Again, with input from the PCC, the Board decided not to require private companies and other nonpublic business entities to disclose the fair value of financial instruments not recognized at fair value on the balance sheet. This reduced unnecessary costs for these organizations.

Last year, the FASB issued a final standard that improves the face of not-for-profit financial statements while enhancing disclosures in the notes. The standard reflects recommendations from our Not-for-Profit Advisory Committee and allows not-for-profits to provide information that is more relevant to users of their financial statements.

Throughout the process of developing the standard, stakeholders strongly supported consistency in how not-for-profits, public companies, and private companies present cash flows. Therefore, the new standard continues to provide not-for-profits a choice of using the direct or indirect method of reporting operating cash flows. If a not-for-profit decides to use the direct method, it is no longer required to present the indirect reconciliation.

On the other hand, unlike businesses, not-for-profits often receive donated resources that are earmarked for specific uses. For that reason, the new standard requires net assets to be classified as “with donor restrictions” or “without donor restrictions”—thus refining, rather than discarding, the current classification scheme.

In another project, we simplified guidance for share-based payments. Based on our work with the PCC, the FASB issued an amendment that makes it easier for all organizations to classify an award when tax withholding is involved. To further reduce costs for private companies, we allowed private companies another pass at using intrinsic value to measure a liability-classified award.

One area where our work with the PCC helped reduce cost in financial reporting for all stakeholders—not just private companies—is goodwill impairment.

Preparers and public accountants were concerned about the cost and complexity of the goodwill impairment test. We learned that private company financial statement users often disregard goodwill and goodwill impairment losses when analyzing a private company’s financial condition and operating performance.

Consequently, the FASB issued guidance that permits private companies to amortize goodwill and apply a simplified goodwill impairment model.

The feedback regarding the relative usefulness of the existing goodwill impairment model certainly was not limited to private companies. In fact, many of the concerns expressed by private companies have been consistent with the feedback we've received from many public company stakeholders.

The result? Earlier this year, we issued a final standard that reduces costs and simplifies this area of accounting for public companies and not-for-profits without compromising the quality of information for investors and other users.

Last but not least, earlier this week, we issued our final standard on hedge accounting. While developing the standard, both the PCC and our Not-for-Profit Advisory Committee provided input about constraints that apply to private companies that are not financial institutions and certain not-for-profit organizations. These constraints make it harder for these preparers to complete hedge documentation in a timely manner. The FASB responded by providing private companies more time to complete hedge effectiveness documentation and other benefits.

Our approach to these issues illustrates a shift in the Board's mindset about how we think about accounting alternatives. It also demonstrates that our ability to make sound decisions about allowing accounting differences relies on quality stakeholder input.

Again, I want to emphasize that our priority is to improve the relevance of information to investors and other users. We make standard-setting decisions within that context.

We'll support differences for nonpublic companies when the accounting is preferable, the disclosures are not necessary, and/or when the nonpublic company needs more time. We won't support differences, however, if those changes are made at the expense of providing investors with relevant information. If it sounds like a balancing act, it is.

That's why I encourage you to continue to share your views on projects and priorities that affect private companies.

Serving all our stakeholders is an ongoing process—and that includes ensuring they can understand and implement a standard consistently.

As Yogi Berra once observed, “In theory there is no difference between theory and practice. In practice there is.” We know that to be true. That’s why our work isn’t done after a final standard is issued. In fact, it’s only just begun.

We believe all the standards I’ve mentioned will improve financial reporting—but we also know they won’t achieve that objective unless stakeholders can understand and appropriately apply them in practice. And we’ve taken steps to improve how we support you in that area.

So how can you get answers to your implementation questions?

One way is through the FASB Technical Inquiry System. Available through our website, the system puts you in contact with members of our project teams to talk through issues and clarify the provisions of the applicable FASB guidance. It’s there for you when you need help in addressing a particular set of facts and circumstances—no matter how big or small the standard.

We also gather information on what we need to do to support implementation efforts by attending conferences like these, where we can hear stakeholder concerns firsthand.

And one of the concerns we’ve been hearing relates to the pace of change.

Last year, we issued an Invitation to Comment to help us plan the Board’s future agenda. In that document, we presented stakeholders with a list of potential financial reporting issues and asked them to weigh in on what they considered priority issues, if it was a problem that should be addressed through standard setting, and, if so, potential paths forward.

In response, one CPA told us point blank: "Take a vacation." That probably echoes the sentiment of a lot of you in this room. If that's the case, you'll be happy to know that some of the projects we'll be considering— such as liabilities and equity, performance reporting, intangibles, and pensions and OPEB—would take a significant number of years for the Board to complete. Even then, depending on the extent of change, the effective date could likely be one to two years after completion. And it's unlikely we'll add all of them to our agenda—especially as we're currently focused on providing resources to help you successfully implement the standards that will take effect soon.

I hope I've successfully reassured you that the FASB is committed to continuing our progress in addressing private company issues—while developing GAAP standards that provide your financial statement users with the most relevant information possible.

We will also continue to work closely with the PCC to ensure that we appropriately address issues of importance to you. This includes improving how we communicate with you about our joint activities—and ensuring that your views are heard during the agenda consultation and standard-setting processes.

With your input, we'll continue to cultivate a mindset that considers, analyzes, and incorporates solutions that simplify your work while providing lenders and other financial statement users with relevant, high-quality information.

We also stand ready to assist you in implementing standards and getting your questions answered—including the ones you ask us later today.

In closing, I want to thank you for your patience and support during our "cultural evolution." Private companies and small businesses are the beating heart of a healthy economy. Accounting standards that promote trust in our capital markets are also essential. Working together, we can continue to foster financial reporting excellence for the benefit of your clients, your businesses, and your capital providers—which, in turn, benefits all of us.

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