May 11, 2015

PCC Review
Financial Accounting Foundation
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: PCCReview@f-a-f.org

Re: Financial Accounting Foundation Three-Year Review of the Private Company Council

Dear Trustees:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the Financial Accounting Foundation's Three-Year Review of the Private Company Council request for comment.

The NYSSCPA's Financial Accounting Standards Committee deliberated the request and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

N Y S S C P A

Scott M. Adair
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

FINANCIAL ACCOUNTING FOUNDATION THREE-YEAR REVIEW OF THE PRIVATE COMPANY COUNCIL

May 11, 2015

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New York State Society of Certified Public Accountants

Comments on
Financial Accounting Foundation Three-Year Review of the Private Company Council

General Comments

We are pleased to respond to the Financial Accounting Foundation's (FAF) Three-Year Review of the Private Company Council (PCC) Request for Comment (RFC) issued February 26, 2015.

We are concerned that the May 11, 2015 comment period deadline is too short (75 days) to allow many individuals and organizations, including state CPA societies like ours, sufficient time to respond to the RFC. The release of the RFC came at the busiest time of year for the aforementioned parties, and we believe it is in the best interest of private companies, the FAF, the Financial Accounting Standards Board (FASB) and the PCC that the comment letter deadline be extended. Accordingly, we respectfully request that the FAF extend the deadline to June 15, 2015, at a minimum or ideally to June 30, 2015.

The PCC has made good progress in reducing the complexity, cost and time necessary for private companies to comply with U. S. Generally Accepted Accounting Principles (GAAP). We have been particularly supportive of the PCC's initiatives to simplify accounting and disclosure surrounding goodwill and intangibles, common control leasing arrangements, and interest rate swap arrangements. We were also supportive of removal of the development stage entities guidance from the Accounting Standards Codification which was added to the FASB's agenda at the request of the PCC and later released as a final Accounting Standards Update (ASU). The accounting alternatives in these ASUs have resulted in reduced cost and complexity for private companies to comply with GAAP.

We believe that the PCC's advisory capacity enables FASB board members to be better informed about the needs of private companies and their stakeholders when promulgating new GAAP or changing existing GAAP. We believe that the PCC's involvement will most likely reduce the need for the FASB to revisit the applicability of some standards at a later date. The progress made by the PCC in a relatively short period of time is impressive, and we suspect that if not for the PCC's efforts, the FASB may well not have achieved such progress this quickly.

We note that some FASB board members, albeit a minority, have not supported certain PCC proposals, citing the view that the FASB should first explore whether the accounting alternatives proposed by the PCC should be available for all entities. We believe the PCC can serve as a springboard for broader GAAP simplification, and in such situations where FASB believes PCC proposals may be applicable to other entities, we believe that issuance of a proposed or final ASU should not be delayed while the FASB explores applicability to other entities.

We also recommend, where applicable, that the FASB make PCC accounting alternatives available to not-for-profit organizations (NPOs) and certain conduit bond obligors (CBOs). We see no reason not to make the goodwill, intangible assets and interest rate swap ASUs available to NPOs and CBOs. We realize the PCC's mission is not specifically related to NPOs and CBOs; however, we believe that the FASB has lost the opportunity to ease the financial reporting burden, or prolonged it, on preparers of NPO financial statements, including those that are CBOs.

We are generally supportive of the possible improvements to the PCC's structure and processes included on page 8 of the RFC to expand the PCC's role to advise and deliberate on the needs of NPOs where appropriate.

The PCC serves an extremely important role in the standards setting process that is independent to a large degree from influence by both the FAF and the FASB. We believe the PCC's independence allows it to be more effective in identifying timely and practical accounting alternatives for private companies, and that process, in our view, must continue.

Specific Comments

We have the following responses and suggestions for the FAF's consideration to questions posed in the RFC:

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.

Response: As discussed in the general comments section we believe that, to varying degrees, all of the PCC alternatives have addressed the needs of users of private company financial statements. Some examples follow.

The cost and difficulty of accounting for goodwill and intangible assets valuation and impairment has been reduced without impacting the needs of financial statement users and stakeholders. In our experience, most financial statement users disregard goodwill and intangibles when considering a company's financial strength and operating results.

The interest rate swap ASU has also reduced the time for many private companies to value interest rate swaps each reporting period while still addressing the needs of the users of private company financial statements.

Applying variable interest entity (VIE) guidance to common control leasing arrangements often resulted in private companies opting not to consolidate a VIE in favor of receiving a GAAP departure in their audit/compilation/review report. The accounting alternative over common control leasing arrangements retains decision useful information for users of private company financial statements (*i.e.*, nature of guarantee(s) and debt outstanding), while providing a practical way to opt out of VIE guidance and avoid inclusion of a GAAP departure in the opinions or reports of auditors or accountants on financial statements.

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.

Response: It would be premature to phase out the PCC's look-back efforts while much more can and should be done to simplify GAAP. Several areas of existing GAAP should be considered for elimination or modification, including the following:

- Derivative and hedge accounting rule requirements
- Rules surrounding the classification of financial instruments as debt or equity
- VIE rules including those affecting "brother-sister" type relationships
- The new revenue recognition standard
- Ongoing FASB projects such as the lease accounting project
- Accounting for transfers and securitizations
- Accounting for income taxes
- Accounting for stock options, warrants, other equity-based awards and other compensation related issues
- Defined benefit plan disclosures
- Fair value disclosures of financial instruments for entities with assets greater than $100 million or with derivatives
- Reclassification disclosures pertaining to comprehensive income
- Onerous disclosure requirements surrounding available-for-sale securities.

As discussed in our response to Question 4, a conclusion should not be reached regarding when the look-back phase is largely complete until additional town hall meetings are held and their feedback results shared by the FASB.

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.

Response: Since the PCC's formation, the FASB has issued approximately 40 ASUs. It is difficult to respond about whether the PCC has been effective in assisting FASB in its standards-setting process as we do not have sufficient information to evaluate its degree of involvement in the process. We believe that FASB proposals have not made the PCC's role clear. For example, the recent Proposed ASU, *Derivatives and Hedging (Topic 815): Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives*, contained a question on whether the proposal should be different for entities that are not public business entities, but made no mention of whether the PCC had provided a view. We understand that as the PCC is a volunteer committee, it is inherently limited in the degree of input it can provide to the standards-setting process.

We think an expansion of the size of the PCC or the addition of subcommittees could better enable PCC members in advising the FASB during the deliberation process.

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?

Response: We believe the FAF should increase the budget for the PCC to enable the PCC to hold additional town hall meetings beyond the three held in 2014 (Columbus, Las Vegas, and Seattle) and the one scheduled to occur in Dallas during 2015. We believe an integral part of helping the PCC focus its efforts and in determining when the look-back period is nearing completion will in large part depend upon input from individuals attending these town hall meetings.

While we understand there may be budgetary constraints, town hall meetings should occur more frequently and be concentrated in major metropolitan areas across the country. As additional town hall meetings are scheduled, it is critically important that the FAF ensures that attendees are comprised of a balanced cross-section of financial statement preparers, users, auditors and other stakeholders. We suspect that the FASB may already have reached out to state CPA societies, regional banks, *et al*. to assist in achieving such a balanced cross-section of attendees. If so, we encourage the process to continue; otherwise we encourage the FASB to commence such a process.

We also believe that if the FAF increases the number and frequency of town hall meetings, technology should be utilized to provide for "virtual" meetings to maximize the amount of feedback from financial statement preparers, users, auditors and stakeholders.

We also believe the PCC's effectiveness would be enhanced by having monthly conference call meetings with the FASB staff.

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?

Response: Since the PCC's formation in 2012 it has made impressive progress to date. See also our response to Question 2.

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

Response: See our response to Question 2.

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

Response: As previously indicated, we are supportive of the PCC considering the needs of NPOs.

The PCC three-year term with an option to extend for an additional two years is appropriate as it provides stability and fresh perspectives brought by new committee members. In our view, a maximum term of five years is appropriate in relation to the FASB board members' five year terms as it provides more stability between PCC and FASB board members. Further we believe that the FAF should ensure that changes in PCC members' terms are staggered to enhance continuity and that the FAF should not do anything that is disruptive to the PCC's mission as it transitions new PCC members. This may require extending some terms during the initial transition period.

We believe the FAF should consider expanding the size of the PCC, and adding subcommittees consisting of individuals independent of the FAF, the FASB and the PCC which would provide additional resources for the PCC, serve as a feeder for potential new members and better enable PCC members to advise the FASB during its deliberation process.

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?

Response: While we appreciate the FAF's and FASB's interest in the needs of private companies and their stakeholders, we believe that the Standard-Setting Process Oversight Committee (SSPOC) consisting of six members may lack the time and resources to function effectively in this process. As previously discussed, the progress that the FASB has made since the PCC's formation is impressive, and we are concerned about any change that might hinder the process for proactively reviewing current and emerging GAAP with the needs of private companies in mind. Consequently, we recommend that the SSPOC not assume oversight responsibilities in 2016. The Private Company Review Committee (PCRC) should continue to be responsible for the PCC and that process ought to continue.

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

Response: We disagree with having the PCC transition from primarily developing alternatives to existing GAAP to primarily providing input on active FASB agenda projects. We think the PCC can do both and should continue to propose alternatives to add to the momentum for simplification. Otherwise the PCC may be perceived as a short-term fix to placate proponents of private company GAAP. Also, care must be taken to not "squeeze out" the PCC in coordinating agendas with the FASB. We also are of the view that the PCC must continue to be in a position to establish its own agenda, otherwise its effectiveness is likely to be diminished.

We are also concerned about the elimination of the requirement for the PCC to hold at least five deliberative meetings a year without establishing a minimum number of meetings. As previously discussed, we believe the PCC has made significant progress since 2012 and we believe it should meet at least quarterly for the next few years and the number of meetings to be revisited in the future.

We question whether the PCC should deliberate on issues that are of interest to public companies as delineated on page 8 of the RFC before the look-back phase is complete as we believe that this could hamper progress.

With regard to PCC outreach to stakeholders we are supportive of a forum being developed to provide feedback regarding PCC initiatives. However, we believe that the demands on PCC members' time would make it impracticable for the PCC to write substantive comment letters on proposed FASB standards without compromising progress on its main mission. We believe that if the PCC is utilized effectively during the FASB deliberation stage, feedback could be accomplished by including the views of PCC members in the FASB Board minutes.

We appreciate the important role that the FAF Appointments and Evaluation Committee (Appointments Committee) serves in identifying PCC candidates. However, we believe that it is critically important that the majority (if not all of those charged with this responsibility) have significant experience with private company GAAP as preparers, users, auditors and stakeholders. Accordingly, we question whether the six members of the Appointments Committee are in the best position to identify and vet potential PCC member candidates. We believe the FAF should consider the use of a broader committee under the supervision of the PCRC to vet potential PCC member candidates. For example, a committee comprised of representatives of state CPA societies, midmarket and regional banks and financial executives' groups should be represented on any appointments committee selected.

As the FAF evaluates transitioning PCC members, it is critical that the FAF consider the views expressed in paragraph DF12 of the Private Company Decision-Making Framework (paragraph reproduced in italics below) to ensure that practitioners are adequately represented on the PCC. We believe that they are uniquely linked to the needs of private companies (arguably more than any other group), and are in the best position to understand the needs and advocate for private company GAAP.

DF12. Many preparers of private company financial statements said that they primarily learn about new financial accounting and reporting guidance from their public accountants and that those educational updates generally coincide with planning procedures for an audit, review, or compilation of year-end financial statements. Some of those preparers also stated that their public accountants frequently are not involved in the interim financial reporting process because their users rarely require a review or audit of interim financial reports. As a result, those preparers stated that they generally receive educational updates in the second half of the calendar year, and many receive significant educational updates once or twice a year. In contrast, because of the complexity of public company reporting requirements and their quarterly financial reporting requirements, preparers of public company financial statements commonly learn about new guidance, including by participating in web-based training, more continuously throughout the year. A large number of lenders and others that use private company financial statements and public accountants that serve private companies also must be educated to understand the effects of new guidance.

We also question why a member with experience in the surety industry should be added as indicated in the RFC as we believe this may prompt other industries to demand representation.

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

Response: None that have not been previously discussed in our general comments and in our responses to Questions 2, 4, 7, 8 and 9.