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"Private Company Plan"
Board of Trustees
Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
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PrivateCompanyPlan@f-a-f.org

Dear Financial Accounting Foundation:

Re: Comments on the Financial Accounting Foundation Board of Trustees Plan to Establish the Private Company Standards Improvement Council

Executive Summary: Our Society supported the findings of the *Blue-Ribbon Panel on Standard Setting for Private Companies Report to the Board of Trustees of the FAF* and the concept of "differential" or "modified" standards for private companies. We emphatically support the position that the oversight of these standards appropriately belongs under the auspices of the FAF. We commend the FAF for acknowledging the need to improve the financial reporting of private companies. However, given the public company reporting pressures placed upon the FASB and its active involvement in the global convergence towards International Financial Reporting Standards (IFRS), we question whether the FASB can adequately respond to the competing needs of private companies. An autonomous standard-setting body to implement differential standards for private companies is needed now: one that is not subject to FASB ratification.

On behalf of the New York State Society of Certified Public Accountants (NYSSCPA) and our more than 28,000 members, I am writing to provide comments on the Financial Accounting Foundation (FAF) Board of Trustees Request for Comment on its *Plan to Establish the Private Company Standards Improvement Council* (the Plan) of October 4, 2011.

Background

On July 28, 2011, I sent a letter to you indicating our Society's support for the findings of the *Blue-Ribbon Panel on Standard Setting for Private Companies Report to the Board of Trustees of the FAF (BRP),* and have attached a copy of that letter for your information. My comments on the Plan are intended to lend the insight of our Organization's leadership and membership on this very important issue for the benefit of the nearly 20 million privately held entities in our country.

Our overall conclusion is that we continue to support a separate standard-setting board for privately held entities, and we believe that the FAF missed a unique opportunity to dispel all of the misgivings that are held by the general business community, CPAs and users of financial statements of privately held entities for many years. I have summarized in our comments those sections of the Plan which we believe do not properly address the long-term best interests of the privately held entities. I reiterate that our Society totally supports the concept of "differential" or "modified" standards for private companies, and we emphatically support that the oversight of these standards appropriately belongs under the auspices of the FAF.

Since 1973, the FASB has been the main designated accounting standard setter for the establishment of GAAP in the U.S. for non-governmental entities. Therefore, private companies are subject to the standards it establishes.

We commend the FAF for acknowledging the need to improve the financial reporting of private companies. These improvements are necessary to bring about relevant information effectively to the financial reporting of private companies and the users of their financial statements, but due to the enormity of the global convergence project and the FASB's designated responsibility to set standards for public companies, the NYSSCPA believes that the FASB should continue its focus on the protection of the investing public through the continued establishment of standards for public companies and the convergence with IFRS as described in the Memo of Understanding between the FASB and the International Accounting Standards Board (IASB).

The January 2011 Blue-Ribbon Panel (BRP) recommended the establishment of a separate standard-setting body to develop and establish GAAP for private companies. The BRP recommended that this separate standard-setting body work along with but not be subject to FASB governance. At that time, we agreed with the BRP's recommendation as described in our attached letter.

The Plan

The FAF Board of Trustees, in October 2011, issued for comment its *Plan to Establish the Private Company Standards Improvement Council* (the Plan). The Plan recommends the establishment of a Private Company Standards Improvement Council (PCSIC) that would identify standards that require modification for private companies subject to ratification by the FASB and, thereafter, be submitted to the public for comment.

The NYSSCPA does not support such a structure, and requests that the FAF adopt the BRP's original recommendation of a separate standard-setting body. We submit that after 30 years of numerous advisory councils and studies, and, most recently, the recommendations of the BRP, your proposed recommendation would not result in a successful outcome for private companies.

We contend that the establishment of the PCSIC, while slightly different in appearance, would, in substance, result in another FASB advisory committee similar to the Private Company Financial Reporting Committee (PCFRC). The Plan describes how the PCFRC was unsuccessful in achieving its mission; not engaged in advocating on behalf of its constituents; staffed by the FASB; identified standards that required modification for private companies; provided its recommendations to the FASB; and had recommendations that frequently were not accepted. Therefore, we believe it is unlikely that the PCSIC's effectiveness would differ from that of the PCFRC when the FASB has the final authority to ratify or reject its recommendations.

Issues

Given the public company reporting pressures placed upon the FASB and its active involvement in the global convergence towards IFRS, we question whether the FASB can adequately respond to the competing needs of private companies. An autonomous standard-setting body to implement differential standards for private companies is needed now that is not subject to FASB ratification. If the FAF fails to adopt the recommendations of the BRP and proceeds with the establishment of the PCSIC as described in the Plan, the NYSSCPA requests that the FAF address the following:

- If we have two sets of standards, the public company standard may, ultimately, come to be viewed as superior to the other and the entities might be exposed to liability issues. Courts and juries might look unfavorably upon private companies though they had complied with what had been deemed to be Industry standards. This could be exacerbated by having two sets of standards set by one standard-setting board. The very term “private company” is inadequately defined in the professional literature. As part of its plan to improve the standard-setting process for private companies, the FAF in conjunction with the FASB would develop criteria to determine whether exceptions or modifications to nongovernmental U.S. GAAP are warranted to address the needs of users of private company financial statements. The PCSIC would apply these criteria to identify existing standards requiring reconsideration. Most of the remaining proposal addresses organizational and procedural matters.
- Accounting standards updates typically define the entities either covered or specifically excluded by the guidance. The master glossary in the accounting standards codification does not specifically define a private company. Its definition of “nonpublic entity” requires clarification in that the criteria can be interpreted either narrowly or broadly. The FAF does not define a private company for purposes of applying its proposal. The definition of a private company is necessary to understand the scope of the PCSIC’s responsibilities and to determine which entities may elect to follow PCSIC guidance. Many private companies hold public debt.
- The FASB should increase the number of nonpublic board members and staff to provide for a greater focus on private company issues. There are approximately 1,000 private companies for each public company, and under the FAF plan there will a disproportionate number of board members.
- How a FASB member can adequately address the needs of private company financial reporting while addressing global convergence issues involving financial reporting for public companies and not be unduly influenced by other positions.
- How the PCSIC meeting as infrequently as four to six times a year can adequately address the needs of private company financial reporting when the PCFRC held meetings with approximately the same frequency which proved to be inadequate.
- Why FASB Board members who are full-time employees attend the PCSIC meetings, yet the PCSIC members do not have input into FASB meetings.
- As the PCSIC will not be assigned its own staff, how the FAF can ensure that the PCSIC’s needs are not given a lower priority especially if the FASB members can ratify or reject the PCSIC’s recommendations.

- If the FAF has provided a three-year timetable to assess whether the Plan is achieving its mission, why the success of the Plan would not be apparent in a shorter period.
- During the first three years of operations, the PCSIC would provide periodic in-person reports to a newly created, special-purpose Private Company Review Committee of the FAF Board of Trustees. The PCSIC also would provide quarterly written reports to the full FAF Board of Trustees. The availability of reports to the general public must be decided.

The complexity, the sheer length of proposed standards, the frequent incomprehensibility and difficulty of implementation, and the extensive disclosures without resultant benefit to the users but with significant costs, makes the Plan undesirable.

Sincerely,

Richard E. Piluso
President

Attachment: NYSSCPA Comments on the Blue-Ribbon Panel on Standard Setting for Private Companies Report to the Board of Trustees of the Financial Accounting Foundation, July 28, 2011