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Three Year Review of the Private Company Council: Request for Comment

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee consists of 53 members, of whom 47 percent are from local or regional CPA firms, 27 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee supported the establishment of the Private Company Council (PCC) as a viable body to set alternative GAAP for private companies.

The Committee has had two essential disagreements with the approach the Board and the PCC is using to set alternative GAAP for private companies: one with the definition of public vs. private entities, the other with how those alternatives may be implemented. The Committee has previously informed the PCC and the FASB of its views.

- The Committee believes any business entity with a public accountability should be considered to be a public business entity. We realize that the Board has to date failed to embrace the reference to public accountability.
- The Board should not issue accounting and reporting alternatives for private companies on a piecemeal basis and include them within its single set of U.S. GAAP guidance. The Committee believes that alternatives for private companies should be provided as a separate comprehensive framework. Further, those entities which adopt those standards should adopt all of them. Piecemeal adoption will tend to undermine the credibility of the standards and confuse users as to what accounting and disclosure policies are being used, no matter how much explanation is provided as to what standards are used.

The Committee continues to believe that the PCC would be far more effective if it adopted the approaches recommended by the Committee.

The Committee believes that a single set of accounting standards applicable to private companies (excluding not-for-profit entities) should be developed. The Committee suggests that development start by utilizing as a reference point one of the recognized financial reporting frameworks for small and medium-sized entities (SMEs).

The following are responses to the questions in the Request for Comment.

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 has difficulty in measuring how successful the PCC has been in proposing alternatives within GAAP that address the users of private company financial statements, but despite some progress, there has not been sufficient impact to call the efforts successful. What is needed is a comprehensive review of GAAP with a view towards establishing a comprehensive framework for private entities. The ASUs issued have been helpful, and pending projects may be, but they miss the mark. The PCC may have had some impact on other new ASUs, but they are still complex, and as such do not meet one of the critical needs of private company financial statements, which is simplicity.

The Committee believes that a single set of accounting standards applicable for private companies (excluding not-for-profit entities) should be developed. The Committee suggests that development start by utilizing as a reference point one of the recognized financial reporting frameworks for SMEs.

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 Committee does not believe the "look-back" phase is anywhere near complete. There are many areas where private company needs are not met, including business combinations, stock compensation, distinguishing liabilities from equity, fair value measurement, financial instruments, income taxes, leases, post-retirement obligations and revenue recognition. This list is not all-inclusive, but is meant to point out that there is much remaining to be done in the "look-back" phase.

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.

See response to Question No. 1. We are encouraged that some of the PCC suggestions are being considered more broadly in the attempt to simplify GAAP, although this is only apparent in the Board's narrow projects. The Committee is not aware of any effective assistance in the Board's three major projects over the past several years, those being revenue recognition, leases and financial instruments. And within the narrow projects,

we have not seen evidence of any effective assistance on projects originating with the Emerging Issues Task Force (EITF).

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?

It is hard to see how the PCC, as currently constituted, can be effective in advising the FASB. It does not have the resources. To be effective, it needs more input from private companies, but the Committee acknowledges that it is difficult to generate significant participation by private companies. PCC initiated outreach to private companies and users of their financial statements might help, but that will require additional resources, and there is no guarantee of success. It may be helpful for the PCC to enlist the help of the banking community to encourage participation by their borrowers in the process.

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 Committee believes the FASB has been appropriately responsive to the relatively few projects initiated or recommended by the PCC (see pages 6 and 7 of the Request for Comment). The Committee does not believe it knows enough about other recommendations of the PCC to respond further to this question.

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

As stated above, the Board should not issue accounting and reporting alternatives for private companies on a piecemeal basis and include them within its single set of U.S. GAAP guidance for all companies. The Committee believes that alternatives for private companies should be provided as a separate comprehensive framework. Further, those entities which adopt any of those standards should adopt all of them. The piecemeal approach only creates potential for confusion among users.

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

The Committee believes the PCC is properly structured. But, its responsibilities need to be redefined to create a comprehensive set of GAAP for private companies. This approach to meeting needs of private companies has been successful in Europe and Canada. However, such an approach will require more staff resources for the PCC, at least in its initial phases. FASB oversight of this process may be important, but should not serve to impede progress.

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?

The PCC has a long way to go to fulfill what the Committee believes should be its objectives. However, it does not appear to the Committee that the Private Company Review Committee (PCRC) performs a role that cannot now be passed on to the Standard-Setting Process Oversight Committee.

The Committee is concerned that the needs of the private sector cannot be met under the umbrella of the FASB. The FASB is overwhelmingly oriented toward public companies, as it should be. Needs of private companies do not seem to get much attention. The Committee suggests that new consideration be given to establishing a separate standard setting body reporting to the FAF with only limited oversight by the FASB. This may be the only way to ultimately meet the needs of the private sector.

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

The possible improvements on pages 8 and 9 could basically eliminate the PCC as an effective voice for private companies. To deal with each recommendation:

- Continued use of working groups by the PCC: We agree
- Transition to primarily providing input on active FASB projects: This would prematurely end the "look-back" phase and eliminate any realistic possibility of comprehensive GAAP for private companies. We do not agree with this recommendation
- Determine PCC's process for advising and deliberating issues: If there is still a question on how this should be done, then the Committee believes that this recommendation should be followed.
- Continued use of the Framework: The Committee had significant reservations about the Framework as communicated in our May 23, 2013 comment letter. A framework is necessary, but we believe it should accommodate our response to Questions No. 1 and 6 above, as well as the comments in our May 23, 2013 letter.
- PCC participation in outreach by the FASB with private company stakeholders: We agree, although we point out that it may require more staff resources to accomplish this.
- PCC communication to private company stakeholders of input provided to FASB: This might help in eliciting more participation by private company stakeholders.
- FASB and PCC work together to coordinate their agendas: We agree.
- PCC Meetings: If the PCC pursues a comprehensive GAAP for private companies, this question of the number and frequency of PCC meetings becomes moot; there will be a need for more meetings. If not, the Committee does not see a need for regularly scheduled PCC meetings.
- Feedback mechanism among PCC and FASB members on active projects: This should be happening already, but if it is not, we recommend that it be done.
- Distribution of materials before meetings: We recommend that efforts be made to do this.

- PCC Membership and Terms: We take no exception to the recommendations.

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

See above comments.

Consideration should be given to having the PCC regularly provide input on projects of the EITF. This does not appear to be happening now.

The FASB should specifically mention the consideration given to accounting and disclosure by private entities in all new ASUs. This consideration should cover more than deferral of effective dates.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink that reads "A.J. Major III". The signature is written in a cursive style with a large initial "A" and "J" and the name "Major III" written in a more formal, slightly slanted script.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants