NASBA

National Association of State Boards of Accountancy

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May 11, 2015

PCC Review PCCReview@f-a-f.org
Board of Trustees
Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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

Dear FAF Trustees:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to add comments on the Financial Accounting Foundation's (FAF's) Three-Year Review of the Private Company Council (PCC). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following in response to the questions posed in your Request for Comment.

OVERALL COMMENTS

We congratulate FAF on a successful vision, design and implementation of the private company standard setting process, established utilizing the PCC. As promised in our early phase correspondence, NASBA has closely observed the PCC process and its interactions with the FASB over the last two and one-half years, and we believe the system to be effective and efficient. We applaud the commitment of the FAF to a fair and robust process, including this Request for Comment. We believe the current structure works well and should not be changed significantly.

We particularly appreciate the efforts of FAF, the FASB, the PCC and their staffs. Their work has resulted in an improvement in private company reporting. Stakeholders in this space have seen a change in how their needs are perceived as you have listened. Private company relevancy has taken on heightened importance. Based on what we hear from Boards of Accountancy, the PCC initiative and its results thus far have been extremely well received. As a stakeholder, we hope your efforts in taking on private company reporting needs will continue.

PCC advisory role limitation should be avoided

The FAF made a very visible and significant commitment to the PCC. However, a theme in the Request for Comment is an assumption that the PCC's role henceforth will primarily be advisory. We believe the PCC can continue to serve as a critical part of the FASB's standard-setting process and overall culture. Therefore, any changes that diminish the PCC being regarded as an important component in determining private company reporting standards should be rejected. We believe limiting the PCC's role primarily to that of an adviser would seriously hamstring the PCC and undermine the FAF's PCC commitment. In that respect, the PCC's agenda should not be defined solely by the FASB's active agenda.

PCC oversight needs a strong FAF Trustee champion

In addition to all of the FAF Trustees, the PCC needs a strong FAF Trustee champion. Also, we believe monitoring and oversight of the PCC calls for continuation of the Private Company Review Committee (PCRC). Moving these governance functions to the Standard-Setting Process Oversight Committee would send a message that the FAF may not be as committed to the PCC as it was three years ago.

Support of the Private Company Decision-Making Framework

Critics of the PCC structure have asked that its role exclude recognition and measurement issues as provided for in the Private Company Decision-Making Framework issued in December 2013. We support the framework and believe the needs of users of private company financial statements were fairly and comprehensively considered in its development. Similar to the matters discussed above, limitations of scope, after significant due process and debate, would indicate a lack of commitment of the FAF to the PCC.

COMMENTS TO SPECIFIC QUESTIONS

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.

    It is clear that the PCC's work thus far has been successful. Private companies are adopting and already utilizing the alternatives proposed by the PCC and endorsed by the FASB. Simplified accounting alternatives for both goodwill and variable interest entities, as examples, have brought welcome financial reporting relief to private companies. The pronouncement simplifying the criteria for application of hedge accounting to "plain vanilla" interest rate swaps is an example where the PCC has improved the relevance of private company financial reporting for users, by reducing artificial earnings volatility and enhancing comparability of these financial statements to those of companies with fixed-rate debt. Also importantly, users of these financial statements are embracing the changes.

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.

    We are not in favor of putting a stake in the ground and proclaiming the look-back phase is complete. The PCC should not be limited to the FASB's active agenda, and should continue to have the latitude to consider additional private company-related alternatives to GAAP, following the existing endorsement process. The PCC should also retain the ability to set its own agenda. The effectiveness of the current process is grounded in this ability, as it gives an independent voice to the PCC.

Absent the principles outlined above, we fear the PCC will cease to be viewed as a serious standard-setting body. That message would reverse much of the good work already accomplished and reopen the private company GAAP debate. The PCC would likely be hampered by many of the issues its predecessor faced. Further, and specifically, with respect to look-back, we believe it is a healthy process, and just as the FASB may want to reconsider past actions, as a responsible agent of change, the PCC should be allowed the same prerogative.

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 currently considering. Do you believe that the PCC has been effective in assisting the FASB in its standard-setting process for active projects? Please explain.

   Yes, we believe the PCC has been effective. A key element of the current process includes the FASB members attending and actively participating at the PCC meetings. By having the FASB actively imbedded in the deliberation process of the PCC, a sea change is resulting. It is evident that the FASB is more cognizant than ever of the need to simplify all financial accounting standards to the extent prudent, not just those for private companies. The FASB's simplification project emanates from its involvement and interaction with the PCC. Providing a venue to explore private company implications of possible changes to accounting standards under all of GAAP has proven quite effective.

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?

   Consider extending the terms of PCC members to five years, to ensure the Council has representation on a rotating basis with the longevity commensurate with the FASB members'. Given the technical nature of the FASB standard-setting process, a longer tenure would ensure that the PCC members have the necessary background and comfort with the deliberation process, enabling them to focus on the technical topics. We agree that an orderly rotation is appropriate and should foster fresh thinking on an ongoing basis.

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?

   We appreciate the FASB's timely response to PCC recommendations and its active involvement in the process. Because of this, common sense GAAP alternatives have brought much needed relief to private companies. We also appreciate the support and oversight of the FAF during the formative years of the PCC. Because of the success of the current system, we believe no changes are needed.

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

    We believe the current process is effective and that no significant changes are warranted. As stated previously, we do not believe the PCC should become primarily an advisory body to the FASB. Though this is one important role that the PCC plays, it should continue to have the ability to consider alternatives to GAAP for private companies.

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

    As we believe the current process is working well, we also believe the composition and size of the PCC is appropriate. It is noted that the PCC can currently range in size from 9-12 members, though throughout the initial three years, it has consisted of 10 members, including the chair.

    In our observation of every PCC meeting, we noted that it was especially helpful to have PCC members with regulatory and standard-setting experience, as they brought expertise and understanding of the nuances of the standard-setting process to the table. We hope that the FAF will continue to consider this valuable expertise in making appointments to the PCC.

    One of the "possible improvements" outlined in FAF's Request for Comments would be to add a member to the PCC with surety expertise. We believe the current composition of the PCC allows for balanced input and deliberation and do not believe that replacing any preparer, auditor or user members with a member with a surety background is warranted. We believe the surety viewpoint could be obtained via PCC outreach or the use of targeted consultants, but if the FAF deems it necessary to include a surety, we would suggest that a new member be added instead of diluting one of the existing viewpoints represented.

    We believe that initial three-year terms with opportunity for additional two-year terms is minimally adequate. As noted above, we would suggest that five-year terms, similar to those of FASB members, might be more appropriate, assuming that a mechanism is in place to remove unsatisfactory performers.

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?

We appreciate the thoughtful oversight that FAF has provided in establishing and monitoring the PCC thus far. We are concerned that relegating oversight to a supporting committee distant from the PCC's mission could dilute the importance of the PCC's work. For these reasons, we strongly believe the FAF's PCRC should be retained to maintain active oversight and stress the ongoing commitment to the PCC's concept and processes. Further, we believe that the PCRC should be chaired by a FAF trustee with deep private company expertise and that the chair continue to closely monitor the PCC's meetings and process.

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

    We generally support the majority of the possible improvements listed in the Request for Comment and have addressed several of them elsewhere in our response. To reiterate though, we do not support the PCC transitioning from a body that develops alternatives to existing GAAP into one that is primarily advisory to the FASB. We agree that the amount of time spent advising the FASB as a percentage of total time will probably increase somewhat, but believe there will always be a need for the PCC to consider alternatives to existing GAAP for private companies' use.

    We are supportive of the use of the Private Company Decision-Making Framework for deliberation and believe it has served the process well. It should not be modified to eliminate PCC considerations of recognition and measurement issues.

    PCC's outreach to stakeholders is imperative to the success of the Council. Both soliciting input and communicating deliberations and alternatives developed to stakeholders is vital.

    While we do not believe that there should be a mandatory five meetings annually, we do believe that a minimum number of meetings needs to be established. The PCC could be given latitude to have meetings in addition to this minimum, as warranted, but we believe some formal structure is recommended.

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

    Given the extensive responsibilities and time requirements of the PCC Chair, we believe it would be appropriate for this to be a compensated position. This would also aid in attracting high quality candidates.

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We appreciate the strong relationship between FAF, NASBA and the State Boards of Accountancy, and we look forward to our continued joint dedication to the development of quality accounting standards in the United States. Thank you for the opportunity to add our comments to your Three-Year Review of the Private Company Council. Please contact us if you have questions or need clarification regarding our comments.

Sincerely,

Walter C. Davenport, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO