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AICPA/FAF/NASBA Announce Members of “Blue-Ribbon Panel” to Address Standards for Private Companies

Norwalk, CT, February 26, 2010—The American Institute of Certified Public Accountants (AICPA), the Financial Accounting Foundation (FAF), and the National Association of State Boards of Accountancy (NASBA) today announced the members of the new “blue-ribbon panel” established to address how U.S. accounting standards can best meet the needs of users of private company financial statements.

Members of the panel represent a cross section of private company financial reporting constituencies, including lenders, investors, and owners as well as preparers and auditors. After its comprehensive review of issues affecting the current system of standard setting for private companies in the United States, the panel will issue a report containing its recommendations to the FAF Board of Trustees in approximately one year.

As announced last month, the committee will be chaired by Rick Anderson, chairman of Moss Adams, LLP, who is also a current member of the FAF Board of Trustees and the AICPA. The panel members are:

Rick Anderson <i>Chairman, Moss Adams, LLP</i>	William Knese <i>VP, Finance and Administration, Angus Industries</i>	Michael Menzies <i>CEO, Easton Bank and Trust Company</i>
Billy Atkinson <i>Board Chair, NASBA</i>	Kewsong Lee <i>Managing Director, Warburg Pincus</i>	David Morgan <i>Partner, Lattimore, Black, Morgan and Cain PC</i>
Daryl Buck <i>Senior VP and CFO, Reasor's Holding Company, Inc.</i>	Paul Limbert <i>CEO, WesBanco, Inc.</i>	Terri Polley <i>President, FAF</i>
Steve Feilmeier <i>CFO, Koch Industries</i>	Krista McMasters <i>CEO, Clifton Gunderson</i>	Dev Strischek <i>Senior VP, Corporate Risk Management, SunTrust Banks, Inc.</i>
Hubert Glover <i>Co-founder and President, REDE, Inc.</i>	Barry Melancon <i>President and CEO, AICPA</i>	Mark Vonnahme <i>Executive VP, Surety, Arch Insurance Group</i>
David Hirschmann <i>President and CEO, Center for Capital Markets Competitiveness, U.S. Chamber of Commerce</i>	Jason Mendelson <i>Co-founder, Foundry Group</i>	Teri Yohn <i>Associate Professor, Indiana University</i>

The members will be joined by several participating observers, including representatives of the U.S. Federal Financial Institution Regulatory Agencies Group and the U.S. Small Business Administration.

“Our blue-ribbon panel members represent a broad range of constituencies who share a keen interest in private company financial reporting,” stated Mr. Anderson. “The members we have assembled all possess experience and expertise in this area, and their participation will undoubtedly result in productive, insightful recommendations to the FAF Board of Trustees regarding this important issue.”

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Media representatives are invited to visit the AICPA Online Media Center at <http://www.aicpa.org/MediaCenter>.

NASBA - Tom Kenny, 615-880-4237, tkenny@nasba.org.

About the AICPA

The American Institute of Certified Public Accountants (www.aicpa.org) is the national, professional association of CPAs, with more than 360,000 members, including CPAs in business and industry, public practice, government, and education. It sets ethical standards for the profession and U.S. auditing standards for audits of private companies; federal, state and local governments; and not-for-profit organizations. It develops and grades the Uniform CPA Examination.

The AICPA maintains offices in New York, Washington, DC, Durham, NC, Ewing, NJ, and Lewisville, TX.

About the Financial Accounting Foundation

The FAF is responsible for the oversight, administration, and finances of both the Financial Accounting Standards Board (www.fasb.org) and its counterpart for state and local government, the Governmental Accounting Standards Board (www.gasb.org).

The FASB is the designated organization in the private sector for establishing standards of financial accounting and reporting for nongovernmental entities in the United States. The GASB establishes and improves financial accounting and reporting standards for state and local governments. The FAF also is responsible for selecting the members of both Boards and their respective Advisory Councils.

The FAF is based in Norwalk, CT.

About NASBA

The National Association of State Boards of Accountancy (www.nasba.org) is the membership organization for the 55 boards of accountancy (50 states, Puerto Rico, Virgin Islands, Washington DC, Guam, and Commonwealth of the Northern Mariana Islands). NASBA’s mission is to enhance the effectiveness of state boards of accountancy through programs that preserve the public trust and confidence in the CPA license, ensure that the integrity, objectivity, and independence of CPAs are not compromised and foster compliance with ethical and professional standards.

NASBA is headquartered in Nashville, TN and maintains a northeast office in New York, NY.

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Private Company Financial Reporting Committee

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Judith H. O'Dell CPA CVA
Chair

November 2, 2009

Mr. John J. Brennan
Chairman
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856

Re: Accounting Standards for Private Companies

Dear Jack:

The Private Company Financial Reporting Committee ("PCFRC" or "Committee") appreciates your request for input on the broad matter of the future of private company financial reporting. The pros and cons of possible models of that future have been discussed by Committee members over the last two years. Today, events and trends are occurring around the world and within the U.S. which have added considerable momentum to the work of the PCFRC in this area, and which have helped bring to light the importance of tackling the issue of private company accounting now. Those events and trends include:

- The issuance of the International Financial Reporting Standard for Small-and Medium-Sized Entities ("IFRS for SMEs").
- Efforts underway in other countries addressing private company GAAP (such as in Canada, Australia, the U.K., and South Africa).
- Recent surveys of financial professionals in the U.S. that demonstrate a preference for differential accounting standards for private companies.
- The increasing number of complicated accounting standards, driven primarily by public company investor and analyst needs, which are often expensive to implement for private companies and provide no real benefit for the users of private company financial reporting.

Of particular importance is the issuance of IFRS for SMEs, inasmuch as that Standard can now be utilized in the U.S. by private companies. The PCFRC recently analyzed the content of IFRS for SMEs and the reasoning of the International Accounting Standards Board in developing separate standards for private enterprises. While this standard may not be the ideal solution for U.S.

private companies, it is a very attractive alternative in that it is self contained, clearly written, and is "GAAP."

Recommendations

Based upon its work, discussions, and consideration of the state of private company financial reporting in the U.S. and in light of the aforementioned events and trends, the PCFRC unanimously recommends that the FAF consider the issue of U.S. private company accounting in the context of the mission of the FASB. The Committee believes that a separate, stand-alone set of accounting standards for U.S. private companies tailored to the needs of the users of those statements is the preferred approach. However the Committee realizes there could be other major alternatives for private company accounting that should be explored. In establishing standards for private company financial reporting, the needs of financial statement users balanced against the costs of complying with the standards must be an overriding principle.

User Needs

As recognized in the Basis for Conclusions for IFRS for SMEs (paragraph BC 45), "users of financial statements of SMEs may have less interest in some information in general purpose financial statements prepared in accordance with full IFRS than users of financial statements of entities whose securities are registered for trading in public securities markets or that otherwise have public accountability." The PCFRC believes that the same situation holds true in the U.S. Generally, private companies have a narrower array of financial statement users compared to the broader and larger range that public companies have. Lenders, venture capitalists, and sureties are the primary external users of private company financial statements. Their financial information needs are mostly centered on short-term cash flows, liquidity, and EBITDA. Notably, these users, unlike their public company counterparts, often have easy access to a company's management and to additional financial information beyond what is provided in the financial statements. Given the differences in the kinds of financial reporting users and their needs, it is clear that private company financial statements in many ways are intended to satisfy different informational needs than public company financial statements.

Cost/Benefit Considerations

The benefits of financial information should outweigh the costs of providing that information. This was stated in the Basis for Conclusions for IFRS for SMEs (paragraph BC 46). Today, the accounting standards generating that financial information have become increasingly complicated and costly to implement. Aggravating the situation is the fact that a number of these standards are not useful or relevant in meeting the needs of the users of private company financial reporting. The private company sector is quite different from the public

company sector. There exists today an imbalance between the growing burden being shouldered by private companies in complying with U.S. accounting standards and the minimal benefit that a number of those standards provide to private company users.

Taking Charge of the Future

In light of the events and trends occurring today, especially the issuance of IFRS for SMEs, the PCFRC believes that outside forces are already at work shaping the future of private company financial reporting in the U.S. In spite of dramatic recognition and measurement differences, both IFRS for SMEs and FASB standards are considered GAAP. Private company financial statement users are concerned about potential marketplace confusion. For the good of U.S. private company constituents and the accounting profession, the PCFRC believes that the FAF should take a leading role in ensuring the establishment of private company standards. In doing so, the FAF will be helping to shape the future of U.S. private company financial reporting in a manner that is in the best interests of U.S. private company constituents. The PCFRC appreciates the FAF's consideration of this recommendation and stands ready to play a significant role in its implementation, as needed. Please feel free to contact me if you have any questions or comments.

Sincerely,



Judith H. O'Dell
Chair
Private Company Financial Reporting Committee

Roadmap Ahead for Private Company Accounting Possible Future Models

Private companies contribute half of the United States' economic output. There are more than 22 million private businesses in the U.S., compared to approximately 17,000 public companies.

Assuming that International Financial Reporting Standards (“IFRS”) becomes generally accepted accounting principles (“GAAP”) for public companies, an opportunity arises to determine what set of GAAP best suits the needs of private company financial reporting constituents. The importance of private companies to the U.S. economy demands a well-researched and rigorous assessment of the various GAAP options for private companies. Establishing a proper GAAP model for private companies that addresses the needs of their constituents and cost-benefit considerations is key to the continued health of the private company sector.

The PCFRC is monitoring the progress of the Securities and Exchange Commission’s efforts on adopting IFRS for public companies. In doing so, the PCFRC is also discussing the roadmap ahead for private company accounting. Below are some possible models for private company accounting, assuming that public companies will be required to comply with IFRS. These initial models are only starting points to facilitate a discussion of the topic.

Model 1 – IFRS with Private Entities Option

IFRS exists as GAAP in the U.S. for all companies (public and private). Similar to their international counterparts, U.S. private companies have the option of following IFRS for Private Entities. If private companies elect not to follow that option, then they may elect to follow IFRS or an other comprehensive basis of accounting (e.g., cash-basis, tax-basis.)

Model 2 – U.S. Adapted Version of IFRS for Private Entities

The IFRS for Private Entities standard is tailored to suit the needs of private company financial reporting constituents in the U.S.

Model 3 – IFRS with Differential Reporting

IFRS is modified, to suit the needs of private company financial reporting constituents, by deleting some requirements or embedding different treatments in the standards.

Model 4 – Separate U.S. Private Company GAAP - Revised

Current U.S. GAAP is reviewed, modified, and developed into a comprehensive and self-contained set of accounting standards for private companies. This GAAP would be for private companies with and without significant external financial statement users, and would be sensitive to the needs of owner managed enterprises.

Model 5 – Separate U.S. GAAP - Maintained and Updated in Future

Current U.S. GAAP would be maintained, as is, for use by private companies. The literature would be updated periodically for needed changes and improvements, keeping an eye on standard setting activities at the IASB and circumstances developing in the private company arena. This model does not contemplate the initial review and significant modification of current U.S. GAAP, as contemplated in model 4.