

# “Blue-Ribbon” Panel on Standard Setting for Private Companies

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# Blue Ribbon Panel Mission

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Address how GAAP accounting standards can best meet the needs of users of U.S. private company financial statements.

The scope of the panel's work includes for-profit companies.

# Objectives of Work

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- (1) Understand the current standard-setting structure and process;
- (2) Understand the needs of users of private company financial statements;
- (3) Understand the cost benefit considerations of GAAP financial statements for preparers;
- (4) Identify alternative structures and standard-setting processes;
- (5) Determine if the current process should be modified for private companies;
- (6) Provide recommendations to the FAF Trustees

# US History of Efforts to Address Private Company Accounting

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- Issue is not new
- Previous studies and committees on private company accounting
  - CPA driven
  - Users of private company financial reports often have different needs
  - Users want 'GAAP'
  - Too many GAAP specific requirements lack relevance and usefulness
- Formation of the PCFRC

## 2009- PCFRC Letter to FAF urging consideration of private company accounting issues

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### Factors influencing PCFRC thinking:

- Difficulty in getting FASB to provide differential standards- FIN 48 and FIN 46R
- Recognition that private company users have different needs than public company investors
- Increasing complexity of standards
- Issuance of SME document and efforts in other countries to address private companies

# What's Different about the Panel?

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- Committee is made up of users (lenders, business owners, private equity, venture capitalist, surety), preparers and practicing CPAs
- Strategic purpose to determine what the future standard setting process should be
- Committee sponsored by FAF, AICPA, NASBA
  - Financial Accounting Foundation – oversees FASB

# Events and Trends in Other Countries and Regions

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- Canadian Accounting Standards Board decided one size does not necessarily fit all and published Accounting Standards for Private Enterprises in December 2009
- UK Accounting Standards Board proposing three-tier system of financial reporting
- Council on Accounting for Unlisted Companies formed in Japan to determine if changes should be made to standard-setting process for unlisted companies
- IFRS for SMEs – being used in many areas of the world and being considered in some others

# Blue-Ribbon Panel's April 12, 2010 Meeting

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- Understanding the needs of users of private company financial statements
- Users of private company financial statements primarily include lenders, other creditors, bonding and credit agencies, and business owners
- While the specific informational needs vary among users, they like the “gold stamp” of GAAP, for consistency, comparability and assurance
- Most users adjust the financials to meet their end needs, and do not make decisions based on the financial statements alone. Users almost always require additional information.

# Blue-Ribbon Panel's April 12, 2010 Meeting

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- Standards are very complex and most companies, especially smaller ones, need CPA help to comply
- Companies, more recently, seem to be taking more exceptions to GAAP
- Users may be willing to learn a second language of 'GAAP'

# Blue-Ribbon Panel's May 14, 2010 Meeting

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- Continuation from April 12<sup>th</sup> meeting on user needs
  - Testimonies from a corporate director and credit rating agency perspectives
- Understanding preparer and practitioner concerns about U.S. GAAP
- Many agreed that there are broad-based concerns with the current system
- Others argued the need for change, at least from a user perspective, has not been heard
- Need to identify pros and cons for dual set of standards including the unintended consequences
- With the right structure and resources it may be possible to have the same Board set both public and private company GAAP

# Blue-Ribbon Panel's May 14, 2010 Meeting

- Overview of alternatives as seen in other countries
  - Canadian GAAP for Private Enterprises
    - Users like Canadian GAAP but recognized preparer concerns
    - Users believed more disclosure is better but can always ask for additional information and usually receive it
    - Started with existing Canadian GAAP, focused on key issues, and eliminated unnecessary material and disclosures
    - Will likely migrate to a more IFRS-based platform over time
  - Proposal for Private Companies in the United Kingdom
    - Three-tier approach (IFRS as adopted by the EU, IFRS for SMEs, and Financial Reporting Standard for Smaller Entities [FRSSE])
    - Issues surrounding full IFRS and IFRS for SMEs still to be addressed

# Blue-Ribbon Panel's May 14, 2010 Meeting

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- Overview of alternatives as seen in other countries
  - IFRS for SMEs
    - Simplified IFRS, designed specifically for SMEs
    - Takes into account the costs to SMEs and the capabilities of SMEs to prepare financial statements
    - app. 61 jurisdictions have either adopted or stated a plan to adopt IFRS for SMEs within the next three years
      - South Africa, Hong Kong and many Caribbean countries have adopted
    - European Commission is currently consulting on the IFRS for SMEs
      - Push back from countries such as Germany and France where statutory GAAP is quite different
    - Australia is considering disclosure exemptions only
    - Canada has rejected and gone with homegrown approach

# Blue-Ribbon Panel's July 19, 2010 Meeting

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- Clarification of the problem the Panel is trying to solve
  - The potential need for change not necessarily user driven
    - However, changes must be fully acceptable to users
  - The “Why”
    - Complexity? Costs? Usefulness? Relevance? Does it go beyond private companies?
    - Consensus by many members and observers is that the most important problem is that of Relevance
      - Need to look further at how relevance is “tested” in the standard setting process

# Blue-Ribbon Panel's July 19, 2010 Meeting

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- Model discussion
  - Members and observers provided views on some preliminary models identified by staff
    - Consensus by BRP:
      - status quo - not an option
      - IFRS-based models - not practical for consideration until decision is made for public companies
        - Possible adoption of IFRS by U.S. public companies is probably at least 5 years away

# Blue-Ribbon Panel's July 19, 2010 Meeting

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- Model discussion - continued
  - Majority of Panel and observers liked one of 3 models
    - U.S. GAAP with exclusions for private companies (but with enhancements to the current process)
    - U.S. GAAP – reorganized into a baseline for all entities and with separate public company add-ons
    - Separate, stand-alone private company GAAP based on current U.S. GAAP (“Canadian approach”)
  - Some believed models could be implemented by the same standard-setting board while others felt a separate private company standard-setting board would be needed
    - Most agreed that changes in the board structure, in some way, are required

# Blue-Ribbon Panel's October 8, 2010 Meeting

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- Summary of written submissions from the public
  - 155 letters received as of October 8, 2010
    - 63% CPA practitioners, 10% preparers, 4% state CPA societies, 3% trade organizations, 1% lenders, 1% owners, 1% sureties, 1% regulators, 16% did not specify
  - Common issues/concerns from respondents
    - Private company financial statements often lack relevance to users
    - Increased complexity
    - Increased pace of the standard-setting process
    - Costs exceed benefits
    - Increase in qualified opinions and use of OCBOA

# Blue-Ribbon Panel's October 8, 2010 Meeting

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- Summary of written submissions from the public
  - Many respondents felt the issues/concerns were systemic
  - Problematic standards
    - Over half of the respondents felt income taxes/uncertain tax positions, variable-interest entities and fair value were problematic
  - Some respondents felt the issues/concerns also applied to public companies
    - Some respondents felt public companies have more resources to deal with the issues/concerns
    - Other respondents wanted improvements made for all companies

# Blue-Ribbon Panel's October 8, 2010 Meeting

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- Summary of written submissions from the public
  - Diverse views on whether there should be two sets of standards and who should set those standards
    - Roughly half the smaller CPA practitioners favored separate standards with some favoring a separate private company standards board
    - Most of the largest firms did not favor separate standards or a separate board
  - Many respondents provided possible short-term and long-term actions (for example, longer implementation periods, freeze GAAP, reconsider IFRS for SMEs)

# Blue-Ribbon Panel's October 8, 2010 Meeting

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- Models and structures discussion

- Remaining models and structures:

**Model 2** \*GAAP with exceptions for private companies  
(enhanced)

**Model 3** Baseline GAAP with Add-Ons for public companies

**Model 4** \*Separate, stand-alone GAAP for private  
companies

\*Models included two structural variations:

**Structure A** Restructured FASB board

**Structure B** Separate private company standards board

# Blue-Ribbon Panel's October 8, 2010 Meeting

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- Models and structures discussion
  - General consensus for **Model 2B**:
    - GAAP with exceptions for private companies (enhanced) with separate private company standards board
  - Views outside the consensus included a restructured FASB board under Model 2 and Model 4 (Separate, stand-alone private company GAAP based on current U.S. GAAP)
  - Generally, the Panel felt that some sort of a separate board was needed to ensure change is implemented
  - The Panel also felt that immediate change/improvement is needed and model 2 is preferred for expediency

# Blue-Ribbon Panel's Next Steps

- **Next Steps**

- Staff to further develop model 2B (especially various operational and other details about a separate board) and draft initial version of the Panel's report
- Some open questions for the Panel to discuss at December 10<sup>th</sup> meeting and incorporate the Panel's thinking in draft report
  - How might a separate board be structured, and how might it be funded considering factors such as independence?
  - How, specifically, would two boards operate together under one set of standards to achieve a robust yet efficient due process?
  - Would some sort of restructuring of the FASB board still be needed (in other words, should the Panel really be recommending "model 2A+B")?
  - How can the standard setters avoid diverging to what would be perceived as two sets of standards?
  - What are the short-term and long-term actions necessary to achieve the BRP recommendation(s)?

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Questions?