
The Blue Ribbon Panel –

Conclusions & Heart Burn

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The Blue Ribbon Panel

Mission of the Blue Ribbon Panel

- Addressing how GAAP accounting standards can best meet the needs of users of U.S. private company financial statements.
- Panel was charged with providing recommendations on the future of standard setting for private companies to the FAF Board of Trustees.

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Objective of the Blue Ribbon Panel

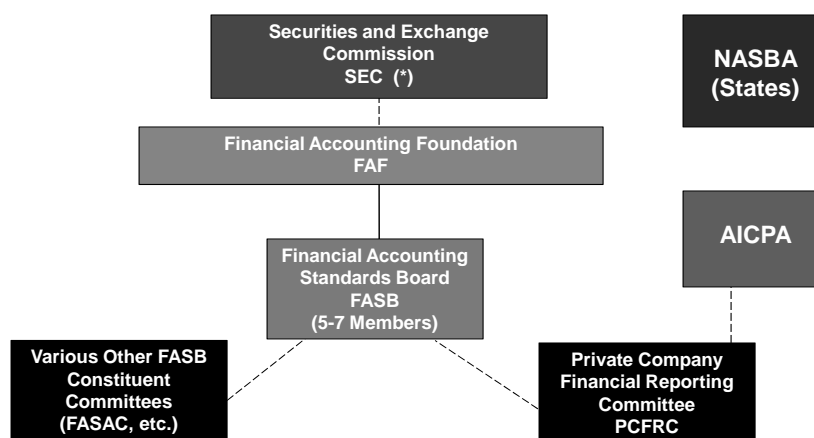
Understand:

- Current Standard Setting Structure and Process
- Needs of Users of Private Company Financial Statements
- Cost/Benefit Considerations of GAAP for Preparers

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U.S. Standard Setter – Public & Private Companies



(*) In addition to the accounting and reporting rules set by the FASB for all U.S. companies, U.S. public companies must also adhere to the regulations established directly by the SEC.

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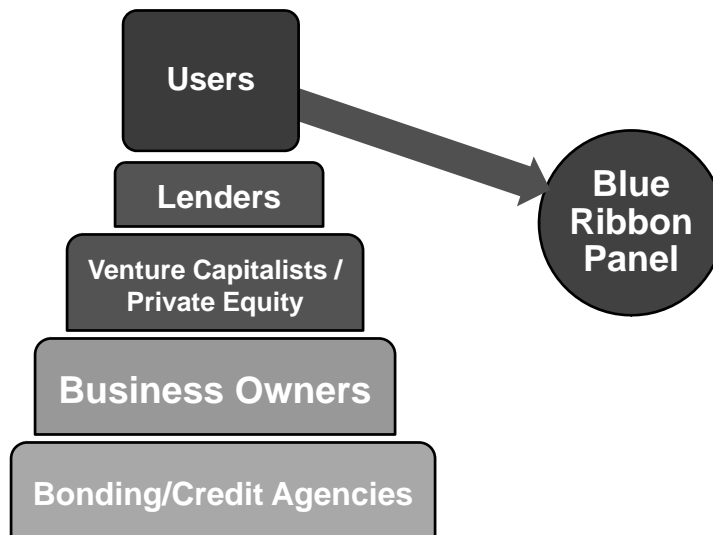
Landscape of Private Company Reporting "Main Street"



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Panel Make-Up?



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BRP Majority Conclusions (Final Report)

- Urgent Growing Systemic Issues in current U.S. GAAP standard setting
- Relevance & Complexity Issues concerning many standards for Private Entities
- Unnecessary costs are being incurred for GAAP financial statement preparation and analysis
- Need a process of standard setting to significantly increase the chances of having differences (where warranted) in financial statement management, recognition, presentation and disclosure

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BRP Majority Conclusions (Final Report), continued

- Establish Exceptions & Modifications to U.S. GAAP for Private Entities
- Establish a *New Board* (under FAF) to ensure this is accomplished for both new and existing Accounting Standards
- New Board should have a “Sunset” Review in about 3 - 5 years to evaluate effectiveness and process
- Create a *Differential Framework* (set of decision criteria) to facilitate and guide the new Board
- Recommended Transitional Actions by FAF and FASB

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BRP Report – Minority Viewpoints

- Changes are needed in U.S. Accounting Standard Setting
- Complex & Irrelevant standards must be reined in for both Public & Private entities
- U.S. cannot have parallel standard setters
- Underlying economics of transactions and not capital structure should govern standards
- No Strong Outcry for change from Users
- Complexity of IFRS decision and considerations

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BRP Report – Minority Viewpoints

Negative consequences of differential standards would far outweigh benefits to stakeholders:

- a. Absence of comparability among entities within industries and in moving to/from public ownership
- b. Incremental costs of dual accounting standards-setting bodies and processes
- c. Added strain and costs to users, practitioners, preparers, educators, students and regulators
- d. Bifurcation of the accounting talent pool in all sectors

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BRP Report – Transitional Considerations

- FASB should work better with PCFRC
- FASB should hold separate robust private entity roundtables and explain reasoning more transparently
- FASB should use delayed implementation more liberally
- FASB should simplify the public comment process to encourage more private entity participation
- FAF should reassess its trustee makeup as well as that of FASB
- FASAC should be more representative

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BRP Report – Unanswered Issues

- Structure of a new Board ?
- Funding...efficiencies?
- Independence of the New Board?
- How would 2 Boards operate? . . and under one set of standards?
- How can divergence of Accounting Standards be avoided with 2 FASBs?
- Short & Long Term Actions needed?
- Is this really the smart thing to do vs. the Emotion associated with the issues?
- Does the Emotion justify the risks of unintended consequences?

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Considerations of the Ultimate Answer

- FAF must demonstrate its Objectivity & Public Interest
- Confidence in existing FASB and process of change by FAF
- Can or will FASB change its culture?
- Can or will FASB have more balanced focus on private entity accounting standards?
- What is the SEC's viewpoint on Private Entity GAAP?
- Do the needs of Users dictate the risks exposure?
- How does this issue impact the IFRS dynamic?

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Questions?

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