



# Private Company Financial Reporting

Historic Changes to Benefit the Marketplace

Charles E. Landes  
NASBA Regional Meetings - June 2011

## Background on Financial Reporting

**15,000 issuers vs. 28.5 million private companies but GAAP driven by public company issues**

**Small businesses employ more than half of all private sector workers**

**Private companies and their financial statement users have information needs different from public companies**

## **Problem Exists Outside of U.S. Too**

- **Canadian Accounting Standards Board decided one size does not fit all and published Accounting Standards for Private Enterprises in Dec. 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**

## **What U.S. Constituents Say about GAAP for Private Company Financial Reporting**

- **Too many GAAP-specific requirements not useful or relevant for private companies' financial statement users**
- **Greater FASB emphasis on equity/public company investors**
- **Most important problem: relevance**
- **Increased complexity burdensome, time-consuming**

**Based on 2004 AICPA task force research among constituents with 3,709 responses**

## In sum...

**Private companies are increasingly taking GAAP exceptions**

**Private companies incurring significant unnecessary cost for financial statement preparation and audit, review or compilation services**

**Current system is not attuned to the needs of private company financial statement preparers and users**

## Panel's Conclusions

**Resolved: A systemic problem exists that needs solving**

### **Supermajority recommendation #1:**

- **Enhance GAAP for private companies by making significant modifications, where warranted**

### **Supermajority recommendation #2:**

- **FAF should create a separate private entities accounting standards board**

## Other Key Recommendations

**Framework for differential decision criteria**

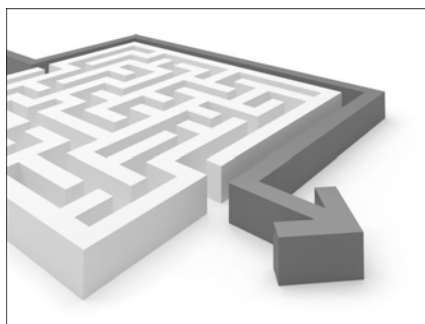
**3-5 year sunset review to determine effectiveness of new board**

**5-7 board members**

**\$4-5 million annual budget**

## Panel's Conclusions Consistent with AICPA Council and Board of Directors

- **Structure is the most critical piece – need new standard setting board under FAF oversight**
- **Support needed for significant GAAP differences, where warranted**
- **Modified GAAP will mean cost savings for preparers and practitioners**



## Reasons for Separate Board

- Board with private company constituent experience would set different standards affecting private company financial reporting system
- Years of studies and research since 1970s did not yield meaningful results
- Other efforts that did not bring necessary change:
  - Joint advisory committee with FASB
  - AICPA Technical Issues Committee
  - FASB Small Business Advisory Committee
  - Private company constituent representation on FASB board
  - Comment letters on standards



American Institute of CPAs

## FAF Remaining Timeline

FAF considered panel's recommendations at Feb. 15 meeting



FAF has formed working group to address accounting standards for private companies and nonprofits



Action plan to be issued September - November



American Institute of CPAs

## What to Overcome

Awareness and education among CPAs, private companies and users of their financial statements

Confusion over whether there'd be two GAAPs (one codification)

Changes for changes sake (changes only where appropriate/necessary)

Fear of change

## Effecting Change Now or Never

Stakeholders must be heard

CPAs strongly urged to comment on FAF proposal - support panel's recommendations

Need small business clients, private employers to comment

Encourage bankers/lenders, other users to show support

## What You Can Do...

**Be Aware – Keep issue in front of staff, clients, users as opportunity for change may never arise again**

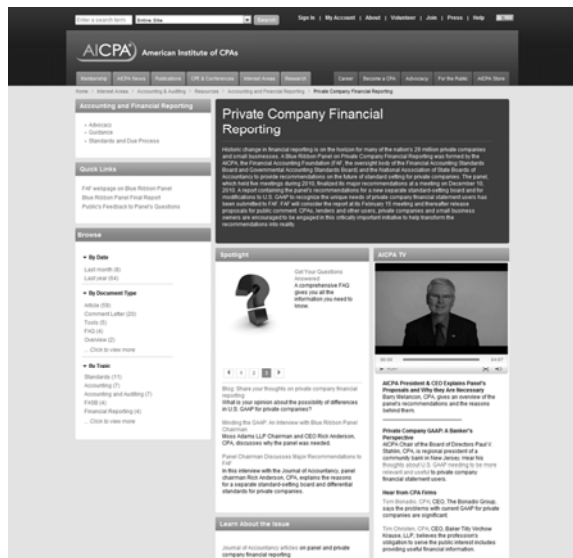
**Educate – Show support for panel’s recommendations; explain real-world benefits for firms, clients, users**

**Prepare – Mobilize firms, private companies, users to be ready to respond when FAF issues proposal**


**Participate – Provide FAF with comments in support of panel’s recommendations**

 American Institute of CPAs

## For More Information and Resources



**aicpa.org/  
privateGAAP**

 American Institute of CPAs