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international

COMMITTEE ON PRIVATE COMPANY STANDARDS

April 15, 2011

John J. Brennan
Chairman, Financial Accounting Foundation
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Brennan:

The Committee on Private Company Standards (CPC-S) of Financial Executives International (FEI) wishes to express its views on efforts made to address private company issues. FEI is the leading advocate for the views of corporate financial management in the United States. It is a professional association of more than 15,000 CFOs, treasurers, controllers and other senior financial managers. CPC-S is a technical committee of FEI which formulates private company positions for FEI in line with the views of the membership. This letter represents the views of CPC-S and not necessarily the views of FEI.

We appreciate the efforts FAF has taken to raise the awareness of private company issues. We also recognize and appreciate the attention to private company issues by the FASB. We believe the increased awareness will be a significant step in improving the process of providing high quality standards for both public and private company users. We believe the efforts of the Blue Ribbon Panel on Private Company Accounting Standards (“BRP”) helped us understand the complex issues facing private company users and preparers in a predominately public company world, and we compliment them on their dedication to the effort.

Our committee would like to comment on the work done by the BRP and offer alternative views and structures that may fulfill their objective as well as suggest other enhancements we feel may improve the process of standard setting. Our suggestions include:

1. Our view of the formation of a group focused solely on private company standards;
2. Enhancing the outreach process as it relates to private company constituencies; and
3. The formation of a standing committee of the Foundation’s Board of Trustees focused on monitoring the success of the committee structure and the proposed group in achieving their intended results in the future.

1250 Headquarters Plaza | West Tower, 7th Floor | Morristown, NJ 07960 | p: 973.765.1000 f: 973.765.1018
1825 K Street, NW | Suite 510 | Washington, DC 20006 | p: 202.626.7801 f: 202.626.6555

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The Formation of a Group Focused Solely on Private Company Standards

While we understand the process that led to the recommendation to form a separate accounting standards board focused on private companies, our committee does not believe that governance was the origin of the issues and may not be the only way to achieve a solution. We think that governance can be improved, specifically as it relates to private company standards, but alternative governance changes may also achieve the result we all seek – high quality standards that result in relevant financial statements prepared in a cost effective manner.

To be effective and achieve the results sought by the BRP and the private company constituents, we believe the group must have a significant voice in the standard setting process. It should be able to set its own agenda, propose exceptions to existing standards and work with the FASB to make proposed standards more relevant to private company constituents. It should not be strictly advisory nor should it be a resource group. However, we don't believe it needs to be a peer board.

There seems to be a credibility gap that may have caused some people to question whether the FASB as an organization can produce high quality standards for private companies. In our opinion, the FASB processes are good, the board members are smart and focused on high quality standard setting for all companies. We believe there may be a combination of process and structural changes short of a full FASB peer board that would result in high quality standards for both public and private companies. The new group's opinions and proposals would have to be taken seriously. If over time, the majority of its proposals are denied or not acted upon, the group will not have achieved its objectives and its structure would have to be re-evaluated. However, if over time the new group's proposals were seriously considered and private company constituents were provided some relief from standards they feel add cost without enhancing relevant information, the group will have achieved its goal and the new group would be part of the FASB process.

Working within the existing governance framework and the FASB would avoid some of the implementation issues that would require state recognition of a new standard setting body. A group working under the authority of the existing FASB would also insure a greater level of coordination between public and private company standards and be less expensive than a separate peer board. We feel that a separate board may create an us vs. them mentality in standards setting and a perception of inferior standards in the users' minds to a greater extent than if the process were all under the authority of the FASB with significantly enhanced focus on private company issues.

For these reasons, we believe that the establishment of a new group with standards proposing ability may be a viable alternative to a separate peer board. In our view, this new group could be modeled after the Emerging Issues Task Force ("EITF") in that it will have the ability to propose changes which are approved, adjusted or denied by the FASB. This group, which we will call the Private Company Task Force ("PCTF"), would enhance the standard setting process by focusing entirely on private company issues and addressing their unique concerns.

The PCTF would be able to set its own agenda, suggest exceptions to existing standards and participate in the FASB's existing due process on proposed standards. Some of the FASB's existing advisory committee structure could be retained to ensure the PCTF has access to a group of highly motivated people focused on private company standards. The committee structure can serve as a resource for agenda items and a sounding board for ideas and provide input to the PCTF's efforts as they deliberate possible changes. We believe the committee structures that exist today may need to be reviewed to make sure they have a clear objective and that those objectives are being met in the way that most benefits both the FASB's needs, the proposed PCTF and other groups' needs in the most effective way.

We believe that the PCTF will need to establish a conceptual framework for private company accounting standards as part of its efforts. Whether this framework is a due process document or a guiding concepts document is debatable. The important issue is that there be a well thought out and articulated document that can be used as a lens through which to view existing and proposed standards for relevance to users that the PCTF can use in its decision making.

Overall, we believe a PCTF board would be less expensive and easier to implement which may reduce the time needed to begin a process for changes related to private company standards.

Outreach Efforts

Recently, outreach efforts have improved significantly for both public and private companies. However, there are differences in the quality and quantity of perspectives provided by private company constituents to the process when compared to the input received from public company constituents. Public company perspectives seem to be well represented by more involvement of public companies in the process, partly due to the resources of those companies and the importance of financial reporting to their public reporting responsibilities and the focus some accounting firms place on public company issues.

Financial reporting issues are important to private companies but they often rely on their accounting firms to keep them informed of past and pending changes. Accounting firms often represent the views of their clients in the standard setting process. In particular, the Big 4 firms do an excellent job of providing high quality input to the standard setting process but often as it relates to their public company clients or the auditability as constrained by the Public Company Accounting Oversight Board ("PCAOB"). The PCAOB significantly influences the behavior of firms that audit public companies, and rightly so. Unregulated companies often end up with the resulting consequences of comments that are focused on public company concerns.

Smaller accounting firms representing private companies often do not have the staff to provide the quantity and quality of comment on pending standards. However, their perspective is often more relevant to the private company constituency than that of the larger firms.

Larger private companies with dedicated financial reporting staff often do not participate due to lack of resources for travel or lack of understanding of the process. Users of financial statements are always the hardest group from which to gain input, but public company users have a representative in the PCAOB and the SEC. Private company statement users may have different concerns than public company users and gaining their perspective will require a different process than that of public company statement users.

While we don't have any perfect solutions, we would suggest that outreach to private company constituencies should be approached differently than that of public company constituencies. The additional use of technology may be helpful over the long run in increasing input. In the meantime, we would suggest this short list of ideas as ways to solicit agenda items, pain points, suggestions for improvement or areas where things are going well. The idea is to make sure that the right projects are on the agenda and allow the PCTF process to make studied and informed decisions.

1. 'Pull' outreach by staff – instead of project updates only, solicit comments on topics at events. To make sure the agenda has the right items included, ask open ended questions such as 'what don't you like and why', 'what needs to change', 'what I hate most', 'what I like most'. The questions could be on cards at event tables and part of a web based outreach process. This avenue has the potential to become a forum for complaints instead of a forum for constructive input. However, it is better to know what people don't like when you are trying to improve. Knowing the pain points to help set the agenda is an imperative in the process. Coming back from each meeting with 100 different perspectives of 'what is wrong' will over time help identify issues that need attention.
2. More outreach to state CPA societies in an open ended fashion. If the comment process were less formal, more individual state society members may participate. Open ended questions to state society technical committees may also be useful. It is often more time consuming and difficult for a state society technical committee to comment on an exposure draft because those comment letters are viewed as position papers and require compromise. More open ended questions may be easier to gather from state societies. Again, this is an attempt to make sure the agenda includes the appropriate items. Accessing the expertise of state societies may give more insight into the ideas of the primary advisors of private companies with respect to financial reporting issues.
3. If outreach on a particular topic or alternatives is needed, handing out comment cards with the alternatives listed as 'check the box opinions' (always with an 'other alternative') could be a fast and easy way to gain the input of many individuals that would not otherwise provide input. Handing out such cards at meetings where FASB staffs, FASB members or others are giving updates could provide additional input into the process.
4. Town Hall Meetings at events with private companies' represented, state CPA society meetings or other similar events with private company constituencies present. The town hall format offers a more informal atmosphere and may allow a greater breadth of perspectives to be heard.

If the agenda includes what is important and the decision making process is sound, the result will be good. The existing FASB process works well in many respects but we believe it works better at gathering the public company perspective. If meaningful changes are to be made to the existing process with respect to private company standard setting, the outreach process will have to adapt to the private company constituency's character. The list above is certainly not exhaustive but we want to offer alternatives and suggestions, not just complain that what exists is not enough. Outreach is a very difficult issue but we feel it is important and can be improved. Our committee is willing to help in any way to improve the outreach efforts to private company constituencies.

FAF Governance

We appreciate the attention FAF has paid to the private company issues through the leadership by its President and CEO, the formation of the BRP, the commitment of financial resources and the formation of the Task Force of the Board of Trustees. Going forward, we would suggest that the FAF Board of Trustees consider the formation of a standing committee to address the success of the standard setting process specifically for private companies. The goal of such a committee would be to assign accountability to a specific group to make sure the private company constituency is being heard and its concerns adequately addressed. If the PCTF's role is to keep private company standards exceptions relevant and practical, the committee of the FAF board would be to insure that the PCTF has the resources it needs and is being effective in meeting the needs of the users, preparers and practitioners serving private company constituencies.

Success of the standard setting process for public companies has lots of attention by the US government and various regulators. Specific attention to the success of the process as it relates to other constituencies may need more focused attention at the FAF Board level than that of the public companies specifically because there are fewer outside groups commenting and monitoring that part of the process.

The FAF Board needs to have a process to avoid the issues of the past for any constituency. We believe the Board is keenly focused on making sure the FASB and GASB have the resources needed and the support to complete their mission.

Conclusion

We appreciate the efforts made to date and are ready and willing to help going forward to make the standard setting process better and more available to everyone involved in the private company community. We think that a dedicated group within the existing FASB process is important to make sure private company issues are addressed without the influence of regulators or other groups not relevant to private companies. A strong voice within the existing FASB process would be helpful to make sure those needs are addressed. Outreach is one of the most important issues that can be improved. Making the standards setting process more available and gathering more input from private company constituencies is important to make sure the agenda is set correctly and that issues

are being dealt with in an effective manner. Lastly, we believe the FAF board needs to assign a group of its members to watch the process closely and avoid the problems of the past.

We want to thank you for your past support of improvements to the private company standard setting process. We are willing to help in any way by offering the advice and opinions of our members as a group or as individual companies representing a diverse group of sizes and industries. If you have any questions or wish to discuss this letter, please feel free to contact me at (704)365-7382 or by email at gwbeckwith@nationalgypsum.com.

Sincerely,

A handwritten signature in black ink, appearing to read "George Beckwith". The signature is written in a cursive, flowing style.

George Beckwith, Chair
Committee on Private Company Standards
Financial Executives International

CC: Terri Polley—FAF President and CEO