Financial Accounting Foundation Private Company Roundtable

March 1, 2012: Boston, Massachusetts

OVERALL REACTIONS TO THE FAF PCSIC PROPOSAL

Many participants felt that the FAF proposal represents a balanced, realistic approach. Some who initially supported a separate authoritative standard setting board expressed concerns that a separate board would result in differential GAAP (or "GAAP Lite," as one participant called it) and create more complexity. Most agreed that accounting principles should be the same, but that many of the disclosures required by GAAP are irrelevant to private company financial statement users. They were comfortable with differential disclosures based on relevance. It was suggested, and many agreed, that any differences in measurement should have a high threshold, and that recognition differences should be required to meet the highest threshold.

Others felt that the profound qualitative differences between public and private companies, and their widely divergent user needs, precluded the need to maintain the "sameness" of all standards. They also pointed out that, if GAAP remains too burdensome and costly for private companies, it will undermine their incentive to go public. These participants still preferred a separate, independent standard-setting board, but absent that, they would support different disclosure requirements for public and private companies.

Many participants felt that the PCSIC should be more independent of the FASB than proposed in the plan. Most objected to having a FASB member chair the PCSIC. Their reasons included the need to overcome mistrust that has developed over time, and the need to avoid the perception that the FASB dominates the council. Some suggested co-chairs, with one a FASB member, the other not. Others felt that the chair should be a PCSIC member. They agreed, though, that if a FASB member is to serve on the PCSIC in any capacity, he or she should have private company experience.

TOPIC 1: Structure of the Proposed PCSIC

Formation and Membership

A few participants said that 15 members would be the right size, saying that more people would help balance the workload among members who also have significant responsibilities in their full-time jobs. Most participants, though, agreed that 15 members would be too many. Views differed on the ideal size. Some suggested 10 to 12 members as an ideal size. Others said 7 or 8 members would be good. Still others cited 9 as the "sweet spot." It was also suggested that the initial, proposed 5 year term was a bit too long, and that the renewal terms of 1 year might be a bit too short.

Participants felt that staffing the PCSIC would be critical to its success. These participants expressed concern that there is no staffing plan in the proposal, and thought that the PCSIC should have power over its own staff.

All participants acknowledged the importance of selecting members who are willing and able to devote the needed time and effort to serving on the council. One participant used this to argue against appointing association representatives as members, since this runs the risk of having members appointed for political reasons, to honor their service, etc., rather than being appointed based on their interest and engagement in private company issues. Others felt that, while members should not be association representatives, it would be important to get association input into membership appointments. One suggested (and others agreed) that the FAF should consider having at least one banking regulator on the council, to bring a "healthy public perspective" to the process.

Many participants felt that, given the significant time and resources required to serve, PCSIC members should be compensated in some way.

Meetings

Nearly all participants agreed that the council would need to meet more than 4 to 6 times per year to gain sufficient momentum and be able to address critical, "low hanging" fruit issues immediately. Several emphasized the importance of being able to show progress during the council's first year of existence, in order to create a perception among private company stakeholders that it was indeed empowered to create change. Many said this was critical in rebuilding trust.

FAF Oversight

Most participants agreed that FAF monitoring and oversight will be important to the success of the PCSIC. Some said it would be "very important" for the PCSIC to report to the FAF, and that the FAF ensures standard setting remains consistent. FAF oversight should also ensure that the FASB acts on PCSIC recommendations in a timely, thoughtful manner. They all agreed that the FAF should conduct ongoing monitoring, in addition to the three year review proposed in the plan.

All agreed that transparency about the process would be very important to the PCSIC's success. Others measures of success would be relief from complexity and more clarity of standards. Most agreed, though, that while not everyone will be satisfied with every outcome, demonstrating that private companies are being heard would be a critical measure of success.

TOPIC 2: Authority and Critical Responsibilities of Proposed PCSIC

Decision framework

Some said it would be critical to establish the decision making framework immediately, and to move away from a "patchwork" of standards. Many also felt it would be important to define exactly what a "private company" is. One participant said the framework should focus not just on the cost of change, but on the benefits of providing certain information versus the cost of providing it. Not doing something because it costs too much is not a good reason in itself to excuse private companies from having to do it, participants said.

Agenda setting

Most participants felt the PCSIC needs the freedom to set its own agenda in order to effect real change. This would also be critical to its acceptance among private company stakeholders. Many said the council would not have this freedom if the PCSIC chair were a FASB member and, as chairman, possessed agenda-setting power. One participant pointed out that, while the PCSIC's ability to set the agenda independently is important, it's not good if the council puts "nonstarters" on its agenda.

Ratification Process

Views were mixed on ratification vs. veto power. Some participants were concerned with the plan's provision for FASB ratification, saying it could inhibit change and "disempower" the PCSIC. They suggested the FASB should be required to have a supermajority vote to veto a council decision. Otherwise, they suggested that there would be no meaningful change. Others supported the ratification proposal, and pointed to the successful, collaborative relationship between the FASB and the EITF. These participants believed that ratification says that the FASB stands behind what the council says, and sends a more positive message. They believe it offers checks and balances, and ensures the council isn't proposing differences just for the sake of difference.

Most agreed that FASB should have a relatively short time limit to vote on a PCSIC decision (no "pocket vetoes"). In order for the process to work, the presumption should be that council decisions will be accepted by the FASB. Only rarely should something be rejected and when it is, the FASB should make it clear why. One participant pointed out that this would be critical in order to avoid the mistakes that occurred with the PCFRC.

PCSIC role in ongoing FASB projects

Most agreed that the PCSIC should be involved throughout the FASB standard setting process, not just at the end.

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Thursday, March 1, 2012

Participants

Robert Anton, CDM Smith, Inc. (preparer)
Billy Atkinson, NASBA (regulator)
Stuart Benton, Bradford Soap Works Inc. (preparer)
Mark Bielstein, KPMG LLP (auditor)
Kirk Billingsley, Pendleton Community Bank (user)
Richard Caturano, McGladrey & Pullen, LLP (auditor)
Diana Frazier, FLAG Capital Management, LLC (user)
Scott Lassonde, Harvey Building Products (preparer)
Paul Maeder, Highland Capital Partners, LLC (user)
John McEnerney, New York State Department of Financial Services (regulator)
Phil Pacino, Greene Rubin Miller & Pacino (auditor)
Bill Pirolli, DiSanto, Priest & Co (auditor)
Paul Rohan, UHY LLP (auditor)
Dianne Russell, Comerica Bank (user)
Bob Uhl, Deloitte LLP (auditor)
Larry Weinstock, Mana Products, Inc. (preparer)

FAF/FASB Participants and Observers

John Brennan, FAF Chairman
Kevin Catalano, FASB Practice Fellow
Grace Hinchman, FAF Vice President, External Relations
Dennis Kass, FAF Trustee
Chris Klimek, FAF Senior Manager, Media Relations and Executive Communications
Mack Lawhon, FAF Trustee
Terri Polley, FAF President and CEO
Leslie F. Seidman, FASB Chairman
Luis Viceira, FAF Trustee