FASB

In ‘Dear Stakeholders’ Alert, FASB Trustees Urge Firms to Opine on Private Company Council

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The FASB’s trustees are pressing for firms to submit comments about the effectiveness of the Private Company Council (PCC), the body that works to amend GAAP for the largest business demographic in the US.

The Financial Accounting Foundation (FAF) issued a “Dear Stakeholders” alert to remind firms that the comment deadline on Review of the Private Company Council closes on May 31, 2024. No comment letters have been submitted as yet, but accountants said they plan to do so – and some already have a mouthful.

When the PCC was first formed it “did a good job of identifying areas where GAAP accommodations were warranted for private companies,” pushing through a number of simplifications around goodwill amortization, hedge accounting for “plain vanilla” interest rate swaps, and common control leases, some said on May 1.

“After this initial wave of PCC activity, though, the Council seemed to peter out a bit,” Scott Ehrlich, president of Mind the GAAP, LLC, said. “From my perspective, it felt like the PCC was given less autonomy to set its own agenda and instead simply transitioned into being a sounding board for current FASB research or technical projects,” he said. “In other words, the PCC appeared to morph from a body that was proactively identifying issues and proposing solutions to one where its main purpose was to merely provide feedback on existing FASB projects and proposed FASB Exposure Drafts.”

The PCC is composed of 12 members who work as accountants, auditors, analysts, and academics at various firms and organizations. The panel was established in 2012 to help the FASB to amend GAAP for private companies, after a Blue Ribbon Panel – convened by the FAF and AICPA – debated the topic for two years.

The FAF’s review comes at a pivotal time for the PCC as it recently appointed Jere Shawver as chair to succeed Candace Wright who vacated the seat at the end of last year after serving several terms. This is the second formal review of the PCC since it was established in 2012. The last review took place in 2015.

Many Private Companies Have Moved Away from US GAAP

Over the years, disappointment has cropped up over the PCC's reluctance to allow for differences in the financial statement presentation and recognition requirements such as carve outs for private companies for ASC 842, Leases and for ASC 326, Credit Losses, for allowance for credit losses and trade receivables. As a result many private companies have moved away from using US GAAP, accountants said.

"We have also noted instances in which privately-held entities spent considerable time and effort implementing new standards only to have the FASB later provide for a practical expedient that addresses the issue," said Allison Henry, vice president of profession and technical standards at Pennsylvania Institute of Certified Public Accountants.

"We believe that some of these issues could have been addressed proactively," said Henry. "For example, the FASB issued a practical expedient for leases between entities under common control in March of 2023 and the effective date for ASC 842, for calendar year end entities commencing Jan. 1, 2022," she said. "And subsequent to the implementation of CECL, the FASB is now considering an amendment for short-term trade receivables and contract assets for privately held entities."

Awakens Big GAAP, Little GAAP Debate?

A theme that often comes with the PCC is whether differences should be minimized in GAAP for public versus private companies wherever possible. Having "big GAAP" and "little GAAP" can present challenges for financial statement users and auditors, as well as for reporting entities that are transitioning between being private or public, some said.

Others said that private companies have benefited from the PCC alternatives that were put in place, pointing to the different needs smaller firms especially have.

"Understanding that the needs and profiles of private companies differ from those of larger public companies, the PCC has been successful in proposing many GAAP alternatives to particularly cumbersome accounting standards," Bob Michaels, technical accounting lead, at CrossCountry Consulting, said. "While these GAAP alternatives for private companies may serve to decrease compliance costs and simplify reporting requirements, the consequence is a reduction of comparability between financial statements of public and private companies, which could impact future investment decisions," he said. "The use of an alternative reporting method could mean similar items in a set of financial statements are recognized and measured differently across entities. Private companies must carefully weigh the costs and benefits of these GAAP alternatives, including costs of future compliance or transition to a public entity."

Suggestions Include Re-thinking PCC's Mission

One suggestion is that the FAF use the review period to reconsider "the mission, purpose, and operating procedures of the PCC, similar to what the FASB just did" with the Emerging Issues Task Force (EITF). Specifically, Ehrlich suggests the following:

- Consider a slight shift in the make-up of the PCC to ensure that more smaller audit firms and reporting entities are represented — this may mean increasing the PCC slightly up to 15 members.

- Ensure that across the PCC, there is at least one current member with significant experience in every Industry Topic set out in the "900 area" of the Codification.
- Allow for the PCC to set its own agenda, similar to how the EITF will function starting in June 2024.
- If enough members of the PCC agree that an issue meets the criteria in the PCC Decision Making Framework, allow the PCC to develop proposed changes to US GAAP and document their thinking via an agenda request to the FASB. Any PCC agenda requests should be given priority by the FASB for consideration at public board meetings and, ultimately, possible publication in the form of an Exposure Draft.

For in-depth analysis of the FASB's guidance for credit losses, please see **Catalyst: US GAAP—Financial Instruments-Impairment**, also on Checkpoint.

For in-depth analysis of the FASB's standard for lease accounting, please see **Catalyst: US GAAP — Leases**, also on Checkpoint.

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