



Alert

Financial Accounting Foundation Establishes New Private Company Council

On May 23 the Board of Trustees of the Financial Accounting Foundation (FAF) voted unanimously to establish a new body—the Private Company Council (PCC)—to improve the accounting standard-setting process for private companies.¹ This decision comes after months of deliberations and outreach to a broad range of stakeholders, including preparers, auditors, and users of private company financial statements. The approved plan for the PCC generally follows the proposal released last October by the FAF but provides greater clarity on the interaction between the PCC and the FASB.²

The PCC will have two principal responsibilities:

- To identify potential exceptions or modifications to existing U.S. GAAP to address the needs of users of private company financial statements, and
- To serve as the primary advisory body to the FASB on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.

The PCC and the FASB will mutually agree on criteria to be used in identifying and evaluating potential modifications to U.S. GAAP for private companies. The FASB plans to issue for comment during the third quarter an initial discussion paper on a private company decision framework.

The PCC will use that framework and consultation with the FASB to determine which elements of existing U.S. GAAP to consider for possible exceptions or modifications by a vote of two-thirds of PCC members. The PCC's decisions on potential modifications and exceptions to U.S. GAAP will be subject to endorsement by a simple majority vote of the FASB. After initial endorsement by the FASB, proposals will be exposed for public comment, redeliberated by the PCC, and then submitted to the FASB for final endorsement and issuance.

The FASB is generally expected to respond to the PCC's decisions within 60 days. If decisions are not endorsed by the FASB, the FASB chairman will provide a written explanation with recommendations for potential changes to the proposal.

¹ Financial Accounting Foundation (FAF) News Release, FAF Establishes New Council to Improve Standard Setting for Private Companies, May 23, 2012, available at www.accountingfoundation.org.

² Board of Trustees of the Financial Accounting Foundation Request for Comment: Plan to Establish the Private Company Standards Improvement Council, available at www.accountingfoundation.org. See also KPMG's Defining Issues Nos: 12-6, Constituents Respond to FAF Proposal to Create Private Company Standards Improvement Council, and 11-51, Financial Accounting Foundation Seeks Comments on Proposed Private Company Standards Improvement Council, both available at www.kpmginstitutes.com/financial-reporting-network.

The PCC will have 9 to 12 members with substantial private company experience as users, preparers, or practitioners. The chair of the PCC will not be a member of the FASB. Members will be appointed by the FAF for a three-year term and may be reappointed for a second, two-year term. The PCC will meet at least five times during each of the first three years of operation. The meetings of the PCC generally will be open to the public and FASB members will participate in those meetings.

The FAF will begin the PCC member selection process in June with a goal of holding the first PCC meeting by the fourth quarter of 2012. The FAF is expected to issue a final report on the responsibilities and operating procedures of the PCC during the week of May 28. The FASB's existing Private Company Financial Reporting Committee, which was established to provide input to the FASB's deliberations on private company issues, will be phased out as the PCC begins its operations.

In related news, the AICPA announced on May 23 plans to develop an "other comprehensive basis of accounting" financial reporting framework for some privately held small- and medium-sized enterprises (SMEs).³ This framework is intended to be a less complicated and less costly system of accounting than U.S. GAAP for SMEs that do not need U.S. GAAP financial statements.

These actions by the FAF and the AICPA continue efforts to address concerns of private company preparers and financial statement users about unnecessary complexity in financial reporting by private companies.

³ AICPA News Release, May 23, 2012, available at www.aicpa.org.

Contact us:

This is a publication of KPMG's
Department of Professional Practice
212-909-5600

Contributing authors:

Paul H. Munter
Joseph B. Yuen

Earlier editions are available at:

<http://www.kpmginstitutes.com/financial-reporting-network>

The descriptive and summary statements in this newsletter are not intended to be a substitute for the potential requirements of any potential or applicable requirements of the accounting literature or SEC regulations. Companies applying U.S. GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors.

Defining Issues® is a registered trademark of KPMG LLP.

©2001-2012 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.