

Review of the Private Company Council

Request for Comment

Overview

The Financial Accounting Foundation's (FAF) Board of Trustees (Trustees) is conducting an assessment of the Private Company Council (PCC), which has been in operation since 2012, to ensure it is still meeting the needs of private company stakeholders.

The purpose of this document is to assist the Trustees in its assessment. They are seeking stakeholder comments on the PCC's effectiveness in executing its mission, including its role in advising the FASB on standard setting for private companies.

Among the issues on which the Trustees are seeking comment are:

- Has the PCC been effective as the primary advisory body to the FASB on private company issues and concerns?
- Has the PCC been successful in considering the needs of private company stakeholders when making recommendations to the FASB on alternatives within Generally Accepted Accounting Principles (GAAP)?
- What organizational or procedural improvements to the PCC are needed?

A full list of questions for stakeholders can be found on page 8.

Stakeholders should email written comments to PCCReview@f-a-f.org by May 31, 2024. We also welcome hard copy comments mailed to "PCC Review," Financial Accounting Foundation, 801 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

Background

General Overview. The PCC was established in May 2012 to improve the process of setting accounting standards for private companies. The PCC has two principal responsibilities:

1. The PCC serves 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.
2. The PCC determines, using the Private Company Decision-Making Framework, Whether alternatives to existing GAAP are recommended to address the needs of users of private company financial statements.

One of the PCC's first tasks was to work jointly with the FASB to develop mutually agreed-on criteria for determining whether and in what circumstances alternatives within GAAP are warranted for private companies. The result of that joint effort was the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (Framework) that was finalized in December 2013.

PCC Responsibilities and Operating Procedures. Key elements of the PCC's responsibilities and [operating procedures](#) (as included in the [May 2012 report](#) establishing the PCC) are described below.

Membership and Terms. The PCC comprises 9 to 12 members, including a Chair, all of whom are selected and appointed by the FAF Trustees. The PCC's membership includes individuals with backgrounds and experience in using, preparing, and auditing (including compiling and reviewing) private company financial statements. Members of the PCC, other than its Chair, are appointed for a term expiring no later than December 31st of the third full calendar year following their appointment and may be reappointed for an additional term of up to three years (for a total of six full calendar years following their appointment). Membership tenure may be staggered to establish an orderly rotation. The PCC Chair may be appointed for such term as the Trustees determine necessary to achieve the objectives of the PCC and allow for an effective transition and continuity of the Chair's role. The aggregate consecutive years for which an individual may be appointed to serve as PCC Chair shall not exceed eight full calendar years (including any full calendar years served as a non-Chair member of the PCC). The PCC currently has a Chair and eleven other members. Refer to Exhibit A for a list of current PCC members.

FASB Liaison and Staff Support. The Trustees assign a FASB member to serve as FASB liaison to the PCC. The liaison's primary purpose is to facilitate communications and collaboration between the PCC and the FASB. FASB technical and administrative staff are assigned to support and work closely with the PCC.

The assistance and support provided by the FASB technical staff includes, among other things, the following:

- Performing research and outreach
- Preparing and providing appropriate reference and background materials
- Identifying various stakeholder views
- Developing possible alternatives for consideration in addressing technical issues
- Disseminating PCC input on FASB technical agenda projects
- Regularly communicating the status of active FASB projects to the PCC
- Participating in meeting discussions
- Analyzing and summarizing public comments and other stakeholder input
- Drafting due process documents.

Meetings. The PCC is expected to meet at least four times each year, with additional meetings as determined necessary by the PCC Chair. Deliberative meetings of the PCC are open to the public, although the PCC may hold closed educational and administrative sessions. Generally, the meetings are held at the FASB's offices in Norwalk, Connecticut. All FASB members are expected to attend and participate in deliberative meetings of the PCC. No more than three FASB members may attend closed educational or administrative meetings of the PCC that address technical issues. FASB member participation in PCC meetings will facilitate their understanding of private company stakeholder perspectives and PCC members' views and is expected to enable a more efficient FASB endorsement process. FASB participation also will assist the PCC in considering potential concerns or alternatives raised by FASB members.

PCC Agenda. Using the Framework, the PCC develops, deliberates, and votes on possible GAAP alternatives by a vote of two-thirds of all sitting PCC members. PCC agenda decisions are made in consultation with the PCC Technical Agenda Consultation Group and with input from stakeholders. Initially, the PCC focused on evaluating existing GAAP to identify standards that may require alternatives to address the needs of private company financial statement users. Because a significant role of the PCC is to advise the FASB on the FASB's current agenda projects, the PCC generally refrains from adding separate projects to its agenda on topics that the FASB is already considering.

PCC Decision Making on Existing GAAP and FASB Endorsement Process. Applying the criteria included in the Framework, the PCC develops, deliberates, and formally votes on proposed alternatives within GAAP for private companies. The PCC submits proposed and final alternatives that it approves (by a two-thirds vote of all PCC members) to the FASB for a decision on endorsement. If endorsed by a simple majority of FASB members, the FASB exposes the proposed alternative within GAAP for public comment. At the conclusion of the comment process, the PCC considers changes to the proposed alternative and forwards its final alternative to the FASB for an endorsement decision. If the FASB endorses the PCC alternative, the alternative is incorporated into GAAP. If the FASB does not endorse a proposed or final PCC alternative, the FASB Chair will provide the PCC Chair with a written explanation, including possible changes for the PCC to consider that could result in FASB endorsement.

PCC Advisory Role on FASB Projects. For projects under active consideration on the FASB's technical agenda, the PCC is the primary advisory body to the FASB about the implications for private companies. The PCC works actively and closely with the FASB to provide recommendations for appropriate treatment for private companies on active FASB projects. The PCC members may provide individual perspectives or formally vote to reach a consensus about providing a recommendation to the FASB for appropriate treatment for private companies on active FASB projects. Those recommendations are considered by the FASB in its deliberations. The FASB is responsible for documenting, in the basis for conclusions of its proposed and final Accounting Standards Updates (ASUs), how it separately considered the needs of private companies and the recommendations from the PCC.

Oversight. The Trustees’ Standard-Setting Process Oversight Committee (SSPOC), which is co-Chaired by two Trustees appointed by the Trustees, has primary oversight responsibility for the PCC. The SSPOC holds both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The SSPOC includes individuals who have private company experience. The PCC Chair provides periodic reports to the Trustees or its designated Committee. Oversight and monitoring of PCC activities are ongoing and include SSPOC member attendance at PCC meetings and other related activities.

FASB Consideration of Private Company Issues. The FASB considers issues that pertain to private companies (as well as public companies and not-for-profit organizations) in each of its projects (unless private companies are excluded from the project scope). FASB project staff members are responsible for taking into account the specific considerations of all stakeholder groups (including private companies) on their respective projects. FASB project staff members conduct research and outreach to ensure a thorough understanding of all stakeholder concerns. All FASB project staff members are trained to consider issues and conduct outreach with a variety of stakeholder groups—there are not specific staff members designated as “PCC” or “private company only” staff. Select PCC members serve as a resource to project level staff on key FASB projects. Current and potential projects on the PCC agenda also have specific project staff. Research on these projects (and potential projects) is conducted for private company stakeholders and more broadly for public company and not-for-profit stakeholders to identify whether there is a broader, more pervasive concern that needs to be addressed.

FASB Advisory Groups. The FASB has a number of advisory groups whose members share their views and experience with the FASB on matters related to projects on the FASB’s agenda, possible new agenda items, and practice and implementation of new standards. Although their focus is not specifically on private company issues, some of FASB’s advisory groups include members that bring a private company perspective—including the Financial Accounting Standards Advisory Council (FASAC), the Investor Advisory Committee (IAC), the Small Business Advisory Committee (SBAC), and the Emerging Issues Task Force (EITF).

FASAC meetings provide the FASB with an opportunity to obtain and discuss the views of a widely diverse group of individuals from varied business and professional backgrounds. FASAC members, who are appointed by the Trustees, are drawn from the ranks of CEOs, CFOs, senior partners of public accounting firms, executive directors of professional organizations, and senior members of the academic and analyst communities. Some of those members have private company experience either because of the nature of their company or the various clients they serve.

The SBAC focuses on increasing the opportunities for small business community members to share their ideas, knowledge, and experience with the FASB. The SBAC provides input and feedback from a small public company perspective, considering whether there are differences in that input for small public versus private company perspectives. The SBAC comprises individuals representing users, preparers, and auditors in the small business community—most if not all SBAC members have some private company experience, and all have public company experience.

The IAC works closely with the FASB in an advisory capacity to ensure that investor perspectives are effectively communicated to the FASB on a timely basis in connection with the development of financial accounting and reporting standards. The IAC is composed of members who demonstrate a keen interest in and knowledge of financial accounting and reporting matters; a commitment to improving financial reporting for users of financial statements; and the ability to provide input on a wide variety of financial reporting matters.

The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification and development of proposed solutions to address narrowly scoped financial accounting issues within the framework of the *FASB Accounting Standards Codification*[®] (Codification). The EITF is designed to make recommendations to the FASB on potential agenda issues and propose solutions to timely address interpretative issues. Task Force members include representatives who can address a broad range of technical accounting topics across various industries, including investors and other allocators of capital, preparers of financial statements, and public accounting firms.

The FASB periodically reviews the effectiveness of each of its advisory groups.

PCC Activities and Accomplishments. Since its inception in 2012, the PCC has made significant progress in addressing and advising on financial accounting and reporting issues that are important to private company stakeholders and the wider financial reporting community.

In 2013, the PCC and the FASB issued the Private Company Decision-Making Framework (Framework), the purpose of which is to assist the FASB and the PCC in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under GAAP. Also in 2013, the FASB, with input from the PCC, issued an ASU on the definition of a public business entity which is used to identify the types of companies that are excluded from the scope of the Framework.

Over the next few years, using the Framework, the PCC addressed several longstanding financial reporting issues that were raised by the broader private company community. As a result, the FASB issued several ASUs from 2014 to 2016 (all consensuses of the PCC), as summarized below.

- **Goodwill:** Allows an accounting alternative and provides simplified guidance for the subsequent measurement of goodwill for private companies.
- **Intangibles:** Allows an accounting alternative to exempt private companies from separately recognizing and measuring certain identifiable intangible assets in a business combination
- **Consolidation:** Allows a private company accounting alternative associated with the application of variable interest entity guidance to certain common control leasing arrangements.
- **Hedge accounting:** Allows the use of a simplified hedge accounting approach when accounting for certain interest rate swaps by private companies.
- **Transition guidance:** Provides private companies the ability to forgo a preferability assessment the first time they elect certain accounting alternatives.

In more recent years, the PCC has focused on the recognition, measurement, and disclosure of stock compensation. In 2021, the FASB issued an ASU (a consensus of the PCC) which provides a practical expedient in determining the current price of an underlying share for equity-classified share-based awards. The PCC also performed extensive research on profits interest awards and recommended that the FASB add a project to the FASB's agenda because of the potential effect on both public business entities and nonpublic business entities. The FASB is expected to issue a final ASU in March 2024 that will add an example to the Codification to demonstrate how an entity would apply the stock compensation scope guidance to profits interest and similar awards. In addition, the PCC has been instrumental in advising the FASB on reducing the complexity and cost of applying the guidance on stock compensation (see below). The PCC is also currently researching stock compensation disclosures.

The PCC, in its role as the primary advisory body to the FASB on private company accounting matters, provides input to the FASB on major standards as they are developed and implemented, as well as in the post-implementation stage (for example, Topic 842, Leases and Topic 606, Revenue from Contracts with Customers). The PCC has influenced a number of private company practical expedients and simplifications in major standards, such as:

- Leases—Discount Rate for Lessees That are not Public Business Entities: Allows lessees that are not public business entities to make a risk-free rate election by underlying class of asset.
- Leases—Common Control Arrangements: Provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists, and if so, the classification of and accounting for that lease.
- Revenue—Practical Expedient for Franchisors: Provides a practical expedient for franchisors that are not public business entities that simplifies the application of the guidance about identifying performance obligations.
- Revenue—Provides certain disclosure exemptions for nonpublic business entities.

In addition to advising the FASB on major standards, the PCC also continually provides input on FASB technical agenda and research projects. While the projects are too numerous to summarize, the PCC has provided input on projects in many areas of GAAP, such as distinguishing liabilities from equity, statement of cash flows, disclosures, income taxes, business combinations, stock compensation, consolidations, financial instruments, financial performance projects, and goodwill and other intangible assets.

The PCC has been instrumental in identifying opportunities to reduce complexity in GAAP for all types of organizations, not just private companies. For example, during 2015 to 2019, the FASB:

- Extended the private company accounting alternatives on goodwill and certain identifiable intangible assets to not-for-profit entities.
- Improved the impairment test for the subsequent measurement of goodwill for public business entities and other entities, based on the private company alternative.
- Provided an accounting alternative associated with performing the goodwill impairment triggering event evaluation for private companies and not-for-profit entities, based on PCC and other private company stakeholder feedback.
- Provided simplifications and improvements involving several aspects of the accounting for share-based payment transactions to both employees and non-employees, based on input from the PCC and other stakeholders.
- Addressed financial reporting complexity for organizations—both public and private—that are in the development stage, based on the PCC’s recommendation.
- Expanded the private company alternative on applying variable interest entities guidance to common control leasing arrangements to all private company common control arrangements.

The PCC has placed significant emphasis on engaging private company stakeholders by soliciting feedback on financial reporting issues affecting private companies and ensuring that those stakeholders are kept up to date on standard setting affecting private companies. In addition to traditional stakeholder outreach meetings, the PCC holds on a regular basis, town hall and liaison meetings with all types of private company stakeholders, including: (1) practitioners (2) private company preparers, and (3) private company financial statement users such as lenders, investors, sureties, and other creditors. PCC town hall and liaison meetings are held in a variety of venues across the U.S. (for example, at conferences, at colleges and universities, and at the FASB’s offices) as well as held virtually. Information about the PCC and its ongoing activities are made publicly available on the PCC’s webpage, such as meeting schedules, meeting recaps and minutes, video playbacks of meetings, meeting highlight videos, meeting materials, operating procedures, the Framework, and current PCC members.

Finally, since its formation, the PCC has made several key process improvements to increase the efficiency and effectiveness in carrying out its roles and responsibilities including establishing a Technical Agenda Consultation Group, supplementing FASB project teams with private company specific project working groups, and in formalizing town hall and liaison activities, among other improvements.

Questions for Comment

The Trustees seek stakeholder views on any or all of the questions below.

1. A principal responsibility of the PCC is to serve as FASB's primary advisory body on the appropriate treatment for private companies on issues that the FASB is actively considering. Do you think that the PCC has been effective in assisting the FASB in its standard-setting process for active projects? Please explain.
2. What improvements, if any, are needed to ensure the PCC is an effective advisory body to the FASB on issues that the FASB is actively considering?
3. Another key responsibility of the PCC has been to review and propose GAAP alternatives that will sufficiently address the needs of users of private company financial statements. Do you think that the PCC has been successful in proposing alternatives within GAAP that address the needs of users of private company financial statements? Please elaborate.
4. Do you think that the FASB has been appropriately responsive to the needs of private companies and the recommendations from the PCC?
5. Do you think that changes to the standard-setting process for private companies are warranted? Please elaborate.
6. Do you have any suggestions about changes to the size, composition, term length, or responsibilities of the PCC?
7. What other organizational or procedural improvements to the PCC or its process would you suggest and why?

Please email written comments to PCCReview@f-a-f.org by May 31, 2024. We also gladly accept written comments mailed to "PCC Review," Financial Accounting Foundation, 801 Main Avenue, P.O. Box 5116, Norwalk, CT 06856-5116. Please do not send responses by fax.

All comments received will be part of the FAF's public file. The FAF will make all comments publicly available by posting them to the [FAF website](#). An electronic copy of this request for comment is available on the FAF's website.

Exhibit A

Current PCC Members

- **Jere Shawver (PCC Chair)**—Managing Partner—Assurance and Risk for Baker Tilly. He is responsible for managing the assurance practice and risk management, which includes the Office of General Counsel. Jere has over 40 years of experience advising companies on financial reporting, accounting, and business matters, across a wide range of industries including, manufacturing and distribution, construction and real estate, higher education, hospitality, government contracting, and technology.
- **Michael Cheng**—national professional practice partner for Frazier & Deeter LLC.
- **Katherine (Katina) Curtis**—audit partner at Grant Thornton LLP.
- **David Finkelstein**—director with SingerLewak LLP.
- **Bradley Hendricks**—associate professor at University of North Carolina at Chapel Hill, Kenan-Flagler Business School.
- **Paul Hensley**—senior vice president and chief financial officer at Holt Texas, Ltd.
- **David Hoagland**—executive credit officer—commercial real estate, community development corporation, and housing capital corporation for U.S. Bank.
- **Robert Messer**—senior executive vice president, chief financial officer-chief risk officer at American National Bank of Texas.
- **Holly Nelson**—chief executive officer at Key Advisory Services.
- **David Pesce**—head of surety at Munich Re Specialty Insurance.
- **Adam Roark**—managing director, FORVIS.
- **Douglas Uhl**—principal team leader, corporate accounting policy at Chick-fil-A, Inc.

Current FASB Liaison to the PCC

- **Susan M. Cosper** joined the Financial Accounting Standards Board (FASB) on May 1, 2019, and was later reappointed to a second term that extends to June 30, 2029.

Current Co-Chairs of the FAF Standard-Setting Process Oversight Committee

- **Manju Ganeriwala** joined the Financial Accounting Foundation (FAF) Board of Trustees on January 1, 2022, and was appointed as the co-Chair of the Standard-Setting Process Oversight Committee effective January 1, 2024. Her term concludes on December 31, 2026.
- **Timothy F. Ryan** joined the Financial Accounting Foundation (FAF) Board of Trustees on January 1, 2020, and was appointed as the co-Chair of the Standard-Setting Process Oversight Committee effective January 1, 2021. His term concludes on December 31, 2024.