CBA
CALIFORNIA BOARD OF ACCOUNTANCY

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
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SACRAMENTO, CA 95815-3832
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WEB ADDRESS: *http://www.cba.ca.gov*

CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PUBLIC MEETING NOTICE FOR THE COMMITTEE ON PROFESSIONAL CONDUCT (CPC) AND CBA MEETINGS

DATE: Thursday, November 17, 2011

COMMITTEE MEETING (CPC)
TIME: 10:00 a.m.

CBA MEETING
TIME: 1:00 p.m. to 5:00 p.m.

DATE: Friday, November 18, 2011

CBA MEETING
TIME: 9:00 a.m. to 1:00 p.m.

PLACE: The Sainte Claire
302 South Market Street
San Jose, CA 95113
Telephone: (408) 295-2000
Fax: (408) 977-0403

Enclosed for your information is a copy of the agendas for the CPC and CBA meetings on November 17-18, 2011. For further information regarding these meetings, please contact:

Veronica Daniel, Board Relations Analyst
(916) 561-1716, or vdaniel@cba.ca.gov
California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

An electronic copy of this notice can be found at http://www.dca.ca.gov/cba/calendar.shtml

The next CBA meeting is scheduled for January 26-27, 2012 in Southern CA.

The meeting is accessible to individuals who are physically disabled. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Veronica Daniel at (916) 561-1718, or email vdaniel@cba.ca.gov, or send a written request to the CBA Office at 2000 Evergreen Street, Ste. 250, Sacramento, CA 95815. Providing your request is at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

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CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
COMMITTEE ON PROFESSIONAL CONDUCT (CPC)
AGENDA

Thursday, November 17, 2011
10:00 a.m.

The Sainte Claire
302 South Market Street
San Jose, CA 95113
Telephone: (408) 295-2000
Fax: (408) 977-0403

Roll Call and Call to Order **(Marshal Oldman, CPC Chair)**.

I. Approve Minutes of the May 19, 2011 CPC Meeting **(Marshal Oldman, CPC Chair)**.

II. Discussion on Initiating a Rulemaking to Adopt Title 16, California Code of Regulations (CCR) Sections 15, 15.1, 15.2, 15.3, 15.4 and Amend Sections 70, 71, and 87.1 – Retired Status **(Kari O'Connor, CBA Staff)**.

III. Discussion on Title 16, CCR Sections 87(e) and 87.1(d) – Eight-Hour Fraud Continuing Education Requirement **(Deanne Pearce, Licensing Chief)**.

IV. Discussion on Initiating a Rulemaking to Adopt Title 16, CCR Section 37.5 – Fingerprinting Requirements **(Deanne Pearce, Licensing Chief)**.

V. Information Regarding the Collection of Email Addresses from Licensees **(Deanne Pearce, Licensing Chief)**.

VI. Public Comments.*

VII. Agenda Items for Next Meeting.

Adjournment.

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meetings Act, all meetings of the CPC are open to the public.

*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the CPC prior to the CPC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the CPC. Individuals may appear before the CPC to discuss items not on the agenda; however, the CPC can take no official action on these items at the time of the same meeting. (Government Code sec. 11125.7(a).)

CBA members who are not members of the CPC may be attending the meeting. However, if a majority of members of the full board are present at the CPC meeting, members who are not members CPC may attend the meeting only as observers.

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DEPARTMENT OF CONSUMER AFFAIRS (DCA)
CALIFORNIA BOARD OF ACCOUNTANCY (CBA)

CBA MEETING
AGENDA

Thursday, November 17, 2011
1:00 p.m. – 5:00 p.m.

Friday, November 18, 2011
9:00 a.m. – 1:00 p.m.

The Sainte Claire
302 South Market Street
San Jose, CA 95113
Telephone: (408) 295-2000
Facsimile: (408) 977-0403

Roll Call and Call to Order **(Sally Anderson)**.

I. Report of the President **(Sally Anderson)**.

A. 2012 CBA Member Committee Interest Survey **(Veronica Daniel, CBA Staff)**.

B. Resolution for Retiring CBA Member Lenora Taylor.

C. Accounting Education Committee (AEC) **(Dominic Franzella, Licensing Manager)**.

1. Action to Dissolve the AEC Following Submission of the Accounting Study Guidelines in July 2011.

2. Resolutions for AEC Members.

II. Report of the Vice President **(Marshal Oldman)**.

A. Recommendations for Appointment/Reappointment to the Enforcement Advisory Committee (EAC).

B. Recommendations for Appointment/Reappointment to the Qualifications Committee (QC).

III. Report of the Secretary/Treasurer **(Leslie LaManna)**.

A. Discussion of Governor's Budget.

B. Fiscal Year 2011-12 First Quarter Financial Report.

IV. Report of the Executive Officer (EO) **(Patti Bowers)**.

A. Update on Hiring Freeze Exemption Requests.

B. Update on CBA 2010-2012 Communications and Outreach Plan (Written Report Only).

C. Proposed Reportable Events/Conditions for Denial of CPA Licensure **(Paul Fisher, Supervising Investigative CPA)**.

D. Financial Accounting Foundation (FAF) Request for Comments on Plan to Establish the Private Company Standards Improvement Council **(Paul Fisher, Supervising Investigative CPA)**.

11/17/2011
TIME CERTAIN
3:00 PM

V. Open Session. Petitions for Reinstatement.

Janell Missy Lee – Petition for Reinstatement of Revoked Certificate.

VI. Closed Session. Pursuant to Government Code Section 11126(c)(3), the CBA Will Convene Into Closed Session to Deliberate on Disciplinary Matters (Stipulations, Default Decisions, Proposed Decisions, and Petitions for Reinstatement).

11/18/2011
TIME CERTAIN
9:00 AM

VII. Regulation Hearing and Possible Action on Proposed Regulations **(Matthew Stanley, CBA Staff)**.

A. Regulation Hearing Regarding Title 16, California Code of Regulations (CCR) Sections 2.8, 9.2, 11, and 11.1 – Accounting Study.

B. Discussion and Possible Action to Adopt or Amend Proposed Text at Title 16, CCR Sections 2.8, 9.2, 11, and 11.1 – Accounting Study.

VIII. Report of the Licensing Chief **(Deanne Pearce)**.

A. Report on Licensing Division Activity.

B. Report on Activities Related to the New Educational Requirements for CPA Licensure set to Take Effect January 1, 2014 **(Dominic Franzella, Licensing Manager)**.

C. Consideration of Recognizing the Mutual Recognition Agreement Recommended by the Hong Kong Institute of CPAs and the United States International Qualifications Appraisal Board.

D. Grant/Deny Appeal of Uniform CPA Examination Candidate KD 122701 **(Kristy Shellans, DCA Legal Counsel)**.

IX. Report of the Enforcement Chief **(Rafael Ixta)**.

A. Enforcement Case Activity and Aging Report.

B. Citation and Fine Activity Report.

C. Reportable Events Report.

D. Update on Peer Review Implementation.

E. Enforcement Actions on Failed Peer Review Reports.

F. Role of the Peer Review Oversight Committee in Developing Peer Review Enforcement Guidelines.

X. Committee and Task Force Reports.

A. Enforcement Program Oversight Committee (EPOC) **(Michelle Brough, Chair)**.

No Report.

B. Committee on Professional Conduct (CPC) **(Marshal Oldman, Chair)**.

1. Report of the November 17, 2011 CPC Meeting.

2. Discussion on Initiating a Rulemaking to Adopt Title 16, CCR Sections 15, 15.1, 15.2, 15.3, 15.4 and Amend Sections 70, 71, and 87.1 – Retired Status.

3. Discussion on Title 16, CCR Sections 87(e) and 87.1(d) – Eight-Hour Fraud Continuing Education Requirement.

4. Discussion on Initiating a Rulemaking to Adopt Title 16, CCR Section 37.5 – Fingerprinting Requirements.

5. Information Regarding the Collection of Email Addresses from Licensees.

C. Legislative Committee (LC) **(Diana Bell, Chair)**.

No Report.

D. Peer Review Oversight Committee (PROC) **(Nancy Corrigan, Chair)**.

1. Report of the October 27, 2011 PROC Meeting.

2. Update on Proposed Changes to the American Institute of Certified Public Accountants Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials.

E. Enforcement Advisory Committee (EAC) **(Cheryl Gerhardt, Chair)**.

Report of the November 3, 2011 EAC Meeting.

F. Qualifications Committee (QC) **(Fausto Hinojosa, Chair)**.

1. Report of the October 19, 2011 QC Meeting.

2. Acceptance of 2012 QC Meeting Dates.

XI. Acceptance of Minutes

A. Draft Minutes of the September 1, 2011 CBA Meeting.

B. Draft Minutes of the September 22, 2011 CBA Meeting.

C. Minutes of the May 19, 2011 CPC Meeting.

D. Minutes of the August 4, 2011 EAC Meeting.

E. Minutes of the April 27, 2011 QC Meeting.

F. Minutes of the August 30, 2011 PROC Meeting.

XII. Other Business.

A. American Institute of Certified Public Accountants (AICPA).

No Report.

B. National Association of State Boards of Accountancy (NASBA).

1. Update on NASBA Committees.

a. Accountancy Licensee Database Task Force **(Patti Bowers/Sally Anderson)**.

b. Board Relevance & Effectiveness Committee **(Marshal Oldman)**.

c. Education Committee **(Donald Driftmier)**.

2. Recommendation to Support Carlos Johnson for NASBA Vice Chair Nominee 2012 **(Sally Anderson)**.

3. Proposed Responses to NASBA Regional Director's Focus Questions **(Dan Rich, Assistant Executive Officer)**.

XIII. Officer Elections **(Sally Anderson)**.

A. President.

B. Vice President.

C. Secretary/Treasurer.

XIV. Closing Business.

A. Public Comments.*

B. Agenda Items for Future CBA Meetings.

C. Press Release Focus **(Dan Rich, Assistant EO)**.

Recent Press Releases.

Adjournment.

Action may be taken on any item on the agenda. The time and order of agenda items are subject to change at the discretion of the CBA President and may be taken out of order.

In accordance with the Bagley-Keene Open Meetings Act, all meetings of the CBA are open to the public. While the CBA intends to webcast this meeting, it may not be possible to webcast the entire open meeting due to limitations on resources.

*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the CBA prior to the CBA taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the CBA, but the CBA President may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the

CBA to discuss items not on the agenda; however, the CBA can neither discuss nor take official action on these items at the time of the same meeting (Government Code Sections 11125, 11125.7(a)).

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CBA Item I.A.
November 17-18, 2011

2012 CBA Member Committee Interest Survey

Presented by: Veronica Daniel, Board Relations Analyst
Date: October 21, 2011

Purpose of the Item
The purpose of this item is to seek CBA member interest in serving on a CBA committee in 2012.

Action(s) Needed
It is requested that CBA members who wish to be appointed or maintain current appointment to a committee, indicate such interest on the attached CBA Member Committee Interest Survey, and submit to Board Relations Analyst, Veronica Daniel, by Friday, December 9, 2011.

Background
Annually, shortly following the officer elections in November, the incoming CBA President reviews the results of the interest surveys and determines CBA committee appointments as necessary. Appointments are announced in advance of the CBA meeting in January.

Comments
None

Recommendation
None

Attachment
CBA Member Committee Interest Survey

CBA
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Attachment

CBA Member Committee Interest Survey

I, ______________________, would like to participate in the following committees for the upcoming year.

___ Committee on Professional Conduct (CPC)

The purpose of the CPC is to assist the CBA in consideration of issues relating to professional conduct by:

- Considering and developing recommendations on issues that apply to the practice of public accountancy and affect consumers.
- Considering, formulating, and proposing policies and procedures relating to emerging and unresolved issues.
- Reviewing selected exposure drafts and developing recommendations to present to the CBA.

___ Enforcement Program Oversight Committee (EPOC)

The purpose of the EOPC is to assist the CBA in the consideration of issues relating to professional conduct by:

- Reviewing policy issues relating to the Enforcement Program.
- Overseeing the program's compliance with CBA policies by way of performing periodic internal audits.

___ Legislative Committee (LC)

The purpose of the LC is to assist the CBA in its activities by:

- Reviewing, recommending, and advancing legislation relating to the practice of public accountancy.
- Coordinating the need for and us of CBA members to testify before the Legislature.

___ Liaison to the Enforcement Advisory Committee (EAC)

___ Liaison to the Qualifications Committee (QC)

CBA members acting as Liaisons to committees are responsible for keeping the CBA informed regarding emerging issues and policy recommendations made at the committee level. Conversely, Liaisons keep the committee informed of CBA policies and assignments. Liaisons addeitionally will evaluate committee chairs, vice-chairs, and members for whom they have specific knowledge of their performance, and report to the CBA President and Vice-President as required.

___ I would be interested in serving on other ad hoc committees or task forces as needed.

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CBA Item I.C.
November 17-18, 2011

Accounting Education Committee

Presented by: Dominic Franzella, Licensing Manager
Date: October 7, 2011

PURPOSE OF THE ITEM

This item covers both CBA Item I.C.1. – Action to Dissolve the Accounting Education Committee (AEC) Following Submission of the Accounting Study Guidelines in July 2011 – and 1.C.2. – Resolutions for Accounting Education Committee Members.

ACTION(S) NEEDED

Staff is requesting that the California Board of Accountancy (CBA) adopt a motion to dissolve the AEC, and adopt the attached resolutions commemorating those individuals whom the CBA selected to serve on the AEC.

BACKGROUND

Senate Bill (SB) 819 (Chapter 308, Statutes of 2009) established under the jurisdiction of the CBA the Accounting Education Advisory Committee, more commonly referred to as the Accounting Education Committee or AEC. The purpose of the committee was to provide the CBA with recommendations for the accounting study guidelines for the additional 20 semester units of accounting study required for CPA licensure beginning January 1, 2014. AEC Chair Ruben Davila provided the AEC's recommendations for the accounting study guidelines to the CBA at its July 2011 meeting, thus concluding the work of the AEC.

COMMENTS

Resolutions for the Ethics Curriculum Committee (ECC) members (who developed the guidelines for the 10 semester units of ethics study) will come forth at a later date. Unlike the AEC where the Legislature left the appointing authority at the discretion of the CBA, the appointing authorities for the ECC were expressly identified. Further, SB 819 made clear that the appointees served at the pleasure of the appointing authority. Thus, until such time as the various appointing authorities withdrawal their respective appointments[1], or the ECC sunsets on January 1, 2014, the ECC continues to exist and the members continue their term of service.

---

[1] Staff is reaching out to the various appointing authorities informing them of the conclusion of the ECC's work and passage of SB 773.

RECOMMENDATION

Staff recommend that the CBA adopt the following motion:

- *Move to approve a resolution to dissolve the AEC, and to approve the attached resolutions honoring the members of the AEC.*

Attachment

- Resolutions for AEC Members

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Ruben Davila was appointed by the California Board of Accountancy, and he has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *he served as Chair for the Accounting Education Advisory Committee; and*

WHEREAS, *throughout his term of service, at all times Ruben Davila gave fully of himself and his ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Ruben Davila for the outstanding contribution he made during his term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Betty Chavis was appointed by the California Board of Accountancy, and she has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout her term of service, at all times Betty Chavis gave fully of herself and her ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Betty Chavis for the outstanding contribution she made during her term of service on the Accounting Education Advisory Committee and to the consumers of California.*

____

Sarah J. Anderson, CPA, President

____

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Gary Pieroni was appointed by the California Board of Accountancy, and he has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout his term of service, at all times Gary Pieroni gave fully of himself and his ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Gary Pieroni for the outstanding contribution he made during his term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Michael Moore was appointed by the California Board of Accountancy, and he has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout his term of service, at all times Michael Moore gave fully of himself and his ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Michael Moore for the outstanding contribution he made during his term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Sherry Anderson was appointed by the California Board of Accountancy, and she has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout her term of service, at all times Sherry Anderson gave fully of herself and her ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Sherry Anderson for the outstanding contribution she made during her term of service on the Accounting Education Advisory Committee and to the consumers of California.*

____

Sarah J. Anderson, CPA, President

____

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Sara Seyedin was appointed by the California Board of Accountancy, and she has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout her term of service, at all times Sara Seyedin gave fully of herself and her ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Sara Seyedin for the outstanding contribution she made during her term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Thomas Dalton was appointed by the California Board of Accountancy, and he has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through November 17, 2011; and*

WHEREAS, *throughout his term of service, at all times Thomas Dalton gave fully of himself and his ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Thomas Dalton for the outstanding contribution he made during his term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

Department of Consumer Affairs

California Board of Accountancy

RESOLUTION

WHEREAS, *Xiaoli Yuan was appointed by the California Board of Accountancy, and he has faithfully served as a member of the California Board of Accountancy's Accounting Education Advisory Committee from March 25, 2010, through May 9, 2011; and*

WHEREAS, *throughout his term of service, at all times Xiaoli Yuan gave fully of himself and his ideas and acted forthrightly and conscientiously, always with the public interest and welfare in mind; and*

WHEREAS, *the members of the California Board of Accountancy wish to express to their high esteem and regard;*

NOW, THEREFORE, BE IT RESOLVED, *that the members of the California Board of Accountancy express heartfelt appreciation to Xiaoli Yuan for the outstanding contribution he made during his term of service on the Accounting Education Advisory Committee and to the consumers of California.*

Sarah J. Anderson, CPA, President

Leslie J. LaManna, CPA, Secretary-Treasurer

Dated: November 17, 2011

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CBA Item II.A.
November 17-18, 2011

Recommendation For Re-Appointment to the Enforcement Advisory Committee (EAC)

Presented by: Marshal Oldman, Vice President
Date: November 8, 2011

Purpose of the Item
Recommendation for re-appointment of Ms. Mary Rose Caras, CPA, to the EAC.

Action Needed
It is requested that the CBA adopt the following recommendation.

Background
This recommendation was made on the advice of and in consultation with the committee chair, Cheryl Gerhardt, CPA, who carefully reviewed and considered the needs of this committee and the skills and talents of existing and prospective committee members.

Comments
None

Recommendation
Ms. Gerhardt recommends, with my concurrence, the re-appointment of Ms. Mary Rose Caras, CPA, to the EAC.

Attachments
None

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CBA Item II.B.
November 17-18, 2011

Recommendation For Appointment to the Qualifications Committee (QC)

Presented by: Marshal Oldman, Vice President
Date: October 21, 2011

Purpose of the Item
Recommendation for appointment of Ms. Jenny Bolsky, CPA, to the QC

Action Needed
It is requested that the CBA adopt the following recommendation.

Background
This recommendation was made on the advice of and in consultation with the committee chair, Fausto Hinojosa, who carefully reviewed and considered the needs of this committee and the skills and talents of existing and prospective committee members.

Comments
None

Recommendation
Mr. Hinojosa recommends, with my concurrence, the appointment of Ms. Jenny Bolsky, CPA, to the QC.

Attachments
1. Interest Letter
2. Cirriculum Vitae

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CBA Item III.B.
November 17-18, 2011

Fiscal Year 2011-12
First Quarter Financial Report

Presented by: Leslie LaManna
Date: October 27, 2011

Purpose of the Item
This financial report, descriptive narrative, and attachments provide an overview of FY 2011-12 First Quarter receipts, expenditures, and the status of the Accountancy Fund Reserve.

Action Needed
No specific action is required on this agenda item.

Background
CBA Financial Reports are prepared quarterly (October, January, April, and August) and are included in CBA meeting materials. These reports provide an overview of receipts, expenditures, and the status of the Accountancy Fund Reserve.

Comments
None

Recommendation
Staff has no recommendations on this item.

Attachments
1. **CBA Budget Allocation History**
2. **CBA Total Revenue and Expenditures**

CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2011-12
First Quarter Financial Report
(for period of 7/1/11 through 9/30/11)

	FY 2011-12 Received/Expended 7/01/11 - 9/30/11 (3 months) [9]	FY 2010-11 Received/Expended 7/01/10 -9/30/10 (3 months) [9]	% Change FY 2011-12 to FY 2010-11 (A:B)	FY 2011-12 Annual Governor's Budget 7/01/11 - 6/30/12 (12 months) [10]	FY 2011-12 Receipts/Expenditures Over/Under Budget (D:A)	FY 2011-12 Annual Projections (12 months) [11]
RECEIPTS						
Revenues:						
Renewals [1]	1,895,785	2,745,575	-31.0%	5,531,500	-65.7%	6,497,942
Examination Fees	819,722	827,538	-0.9%	2,969,700	-72.4%	2,809,657
Licensing Fees	226,400	211,350	7.1%	946,900	-76.1%	776,003
Practice Privilege Fees	27,550	20,050	37.4%	186,100	-85.2%	94,430
Miscellaneous [2]	12,452	13,748	-9.4%	56,201	-77.8%	42,680
Monetary Sanctions [3]	0	0	NA	0	NA	0
Penalties and Fines	5,012	1,188	322.1%	26,104	-80.8%	17,179
Total Revenues	2,986,921	3,819,449	-21.8%	9,716,505	-69.3%	10,237,891
Interest	0	0	NA	0	NA	0
TOTAL NET RECEIPTS	**2,986,921**	**3,819,449**	**-21.8%**	**9,716,505**	**-69.3%**	**10,237,891**
EXPENDITURES:						
Personal Services:						
Salaries & Wages	967,561	889,121	8.8%	4,393,253	-78.0%	3,956,150
Benefits	387,236	343,137	12.9%	1,857,283	-79.2%	1,548,944
Total Personal Services:	**1,354,797**	**1,232,258**	**9.9%**	**6,250,536**	**-78.3%**	**5,505,094**
Operating Expenses:						
Fingerprints	8,022	0	NA	185,000	-95.7%	96,264
General Expense	28,680	26,676	7.5%	44,211	-35.1%	172,080
Printing	18,014	10,320	74.6%	85,608	-79.0%	76,014
Communications	2,758	840	228.3%	53,102	-94.8%	16,548
Postage	20,473	20,484	-0.1%	252,151	-91.9%	122,838
Travel: In State	17,182	0	NA	132,886	-87.1%	132,886
Travel: Out of State	0	0	NA	0	NA	0
Training	2,335	0	NA	28,012	-91.7%	12,762
Facilities Operations	546,604	525,990	3.9%	613,818	-11.0%	613,818
Utilities	0	0	NA	0	NA	0
Consultant & Professional Services Int.	0	0	NA	3,708	-100.0%	0
Consultant & Professional Services Ext.	355,796	148,744	139.2%	482,363	-26.2%	700,000
Departmental Services	0	0	NA	1,179,776	-100.0%	1,179,776
Consolidated Data Center	0	30,000	-100.0%	41,148	-100.0%	30,000
Data Processing	2,597	0	NA	71,103	-96.3%	15,582
Central Administrative Services	128,538	0	NA	515,227	-75.1%	515,227
Exams	136,600	65,700	107.9%	0	NA	140,927
Enforcement	211,830	0	NA	1,463,551	-85.5%	923,036 [12]
Minor Equipment	346	4,543	-92.4%	36,800	-99.1%	2,076
Major Equipment	0	0	NA	13,000	-100.0%	13,000
State Controller Operations	0	0	NA	13,000	-100.0%	13,000
FI$Cal [4]	0	0	NA	53,000	-100.0%	53,000
Total Operating Expenses:	**1,479,775**	**833,297**	**77.6%**	**5,267,464**	**-71.9%**	**4,828,834**
TOTAL EXPENDITURES	**2,834,572**	**2,065,555**	**37.2%**	**11,518,000**	**-75.4%**	**10,333,928**
Less Scheduled Reimbursements	5,766	5,020	14.9%	296,000	-98.1%	296,000
TOTAL NET EXPENDITURES	**2,828,806**	**2,060,535**	**37.3%**	**11,222,000**	**-74.8%**	**10,037,928**
RECEIPTS IN EXCESS OF EXPENSES	158,115	1,758,914		-1,505,495		199,963
PLUS COST RECOVERY	394,429	163,841		0		394,429
BEGINNING RESERVES JULY 1 [5]	14,003,000	19,753,000		14,003,000		14,003,000
GENERAL FUND LOAN 2011 [6]	**-1,000,000**	0		**-1,000,000**		**-1,000,000**
GENERAL FUND LOAN 2010	**0**	**-10,000,000**		**0**		**0**
Total Resources	13,555,544	11,675,756		11,497,505		**13,597,392**
PROJECTED ENDING RESERVES	13,555,544	11,675,756	16.1%	11,497,505		13,597,392
GENERAL FUND LOAN 2002 [7]	(6,000,000)					
GENERAL FUND LOAN 2003 [7]	(270,000)					
GENERAL FUND LOAN 2008 [7]	(14,000,000)					
GENERAL FUND LOAN 2010 [7]	(10,000,000)					
GENERAL FUND LOAN 2011 [7]	(1,000,000)					
MONTHS IN RESERVE (MIR) [8]	**14.1**	**11.0**		**12.0**		**14.2**

Footnotes:

[1] Includes biennial renewals, delinquent and prior year renewals, and initial licenses.

[2] Includes miscellaneous services to the public, dishonored check fees, certification fees, duplicate licenses, name changes, over/short fees, suspended revenue, prior year adjustments, and unclaimed checks.

[3] Enforcement monetary sanctions received as components of stipulated settlements and disciplinary orders approved by the CBA. These orders bring to a conclusion any accusations that had previously been filed by the Executive Officer, and are separate from fines or citations.

[4] FI$Cal is the Financial Information System for California, an historic project with four Partner Agencies having authority over the state's financial management. Comprised of the Department of Finance (DOF), the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS), the project represents a multi-year commitment by the State of California to operate within an integrated financial management system environment. Leveraging the power of Enerprise Resource Planning (ERP) will assist the project to integrate the data, functions and processes of state fiscal data data management into one system. All Agencies contribute a portion of their expenditure authority to this project.

[5] FY 2011-12 beginning reserve amount was taken from Analysis of Fund Condition statement, prepared by the Department of Consumer Affairs (DCA) Budget Office on October 11, 2011.

[6] The CBA budget for FY 2011-12 includes a $1 million loan to the General Fund.

[7] Funds borrowed per California Government Code Section 16320, which indicates that the Budget Act is the authority for these loans. The "terms and conditions" of the loans, per the Budget Act are: "The transfer made by this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer." (Estimated at 2.78% for 2008, 2.64% for 2002, and 1.64% for 2003 loan). "It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through a reduction in service or an increase in fees." Outstanding General Fund loans total $31,270,000.

[8] Calculation: expenditure authority for FY 2011-12 ($11,518,000) divided by twelve months equals monthly expenditure authority ($935,167). Total ending reserves divided by monthly authority equals "Months in Reserve" (MIR).

[9] Received/Expended amounts through September 30, 2011 for FY 2011-12 and September 30, 2010 for FY 2010-11 include encumbrances, and are from DCA Budget Reports.

[10] Figures reflect projected revenues from FY2011-12 Workload and Revenue Statistics, expenditures are from the FY 2011-12 DCA Budget Galley STONE and the DCA Fund Condition statement prepared 7/22/2011.

[11] This column reflects CBA's annual revenue and expenditure projections for Fiscal Year 2011-12 based on three months of actual data.

[12] Annual expenditures projected for the Enforcement line item are based only on what the CBA has spent to date. No other factors are used in determining this projection. This estimate is not indicative of the number or type of enforcement cases the CBA anticipates being involved in or is currently investigating.

NOTE: CBA Financial Reports are prepared quarterly (October, January, April, and August) and included in CBA Meeting materials. These reports provide an overview of receipts, expenditures, and the status of the Accountancy Fund Reserve.

CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2011-12
FIRST QUARTER FINANCIAL REPORT
(for period of 7/01/11 through 9/30/11)

DISCUSSION AND ANALYSIS OF FINANCIAL REPORT

BUDGET

The FY 2011-12 Budget was signed timely by Governor Brown on June 30, 2011, compared to FY 2010-11 when the budget was signed 100 days late. During any budget impasse, state agencies can not enter into new service contracts or spend money for goods and services. The timely signing of the budget this year, gave the CBA the authority for such spending. However, the CBA along with the majority of other state agencies have been, and still are, subject to the hiring freeze as well as the one-day-per month personal leave program that ends October 31, 2011. Additionally, all in-state non-discretionary travel must still be approved by the DCA. So far, the CBA has submitted 21 in-state trips for FY 2011-12 and all have been approved.

REVENUES/TOTAL RECEIPTS

During the first quarter of FY 2011-12, the CBA collected $2.9 million in total receipts. On July 1, 2011, the CBA implemented a 40 percent temporary renewal fee reduction from $200 to $120. The temporary renewal fee reduction is scheduled to last four years, ending on June 30, 2015. Consequently, first quarter renewal revenues reflect a 31 percent decrease compared to the first quarter of the last fiscal year.

EXPENDITURES

Operating expenditures indicate a 37 percent increase from last year. Personal services increased approximately ten percent which can be attributed to staff being subjected to three-day furloughs in FY 2010-11 versus the one-day personal leave program currently in effect.

Expenditures for external consultants reflect an increase of more than $200,000 this quarter resulting from increased usage of expert consultants by the Enforcement Division.

Last year's budget impasse was the main reason for skewed expenditure data for the FY 2010-11. Although this year's amounts do not reflect abnormal spending patterns, FY 2010-11's budget impasse deferred the billing for many essential functions such as pro rata and investigative hearings.

RESERVES

The CBA ended the first quarter with 14.1 months in Reserve. The CBA received a large increase in cost recovery monies this quarter due to a $300,000 payment by a defendant from a long-standing and on-going settlement. Included in the Governor's Budget is a $1,000,000 loan from the Accountancy fund to the State's General Fund. At this time, the total CBA outstanding loans to the General Fund equal $31,270,000.

Attachment 1

CBA Budget Allocation History

(including reimbursements FM03)

1st Quarter FY 2011-12	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Client Services	Board
$ Budgeted	**$11,156,000**	**181,390**	882,418	1,238,851	587,182	937,756	4,435,920	2,298,654	497,719	0.0	96,110
$ Spent*	**$2,834,570**	45,124	323,914	282,080	162,815	226,176	1,142,999	508,196	121,316	0.0	21,950
Authorized Positions	**87.5**[1]	2.0	9.0	13.0	5.0	10.0	22.5	22.0	4.0	0.0	0.0

1. Authorized positions increased from 84.0 to 87.5 resulting from the approval of two FY 2011-12 BCPs. Two full and one half-time senior analyst positions were allocated to assist with the Enforcement Division's non-technical workload. An additional limited-term clerical position was approved to assist with Peer Review requirements.

FY 2010-11	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Client Services[2]	Board
$ Budgeted	**$11,955,725**	176,030	1,020,298	1,244,918	618,123	926,135	5,146,107	2,163,298	519,359	0	141,456
$ Spent	**$9,223,515**	140,127	883,475	1,230,379	530,717	980,654	2,743,474	2,118,158	478,714	0	117,816
Authorized Positions	**84.0**	2.0	9.0	15.0	5.0	8.0	20.0	21.0	4.0	0.0	0.0

2. The Client Services Unit was closed in 2010 and staff were redirected to the Examination, Enforcement, and RCC units.

FY 2009-10	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Client Services	Board
$ Budgeted	**$11,739,568**	446,994	617,118	1,311,926	568,326	788,597	4,970,948	1,830,145	591,295	501,841	112,378
$ Spent	**$8,635,398**	301,775	665,369	1,122,477	517,342	805,498	2,601,959	1,564,363	469,070	409,554	177,991
Authorized Positions	**83.0**	5.0	6.0	15.0	5.0	7.0	17.0	19.0	4.0	5.0	0.0

FY 2008-09	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Client Services	Board
$ Budgeted	**$12,417,899**	494,269	648,337	1,519,371	514,956	909,587	4,985,373	2,068,830	655,651	515,029	106,496
$ Spent	**$9,181,841**	375,141	693,167	1,296,551	451,308	851,468	2,504,456	1,820,381	644,070	418,855	126,444
Authorized Positions	**83.0**	5.0	6.0	15.0	4.0	8.0	16.0	19.0	5.0	5.0	0.0

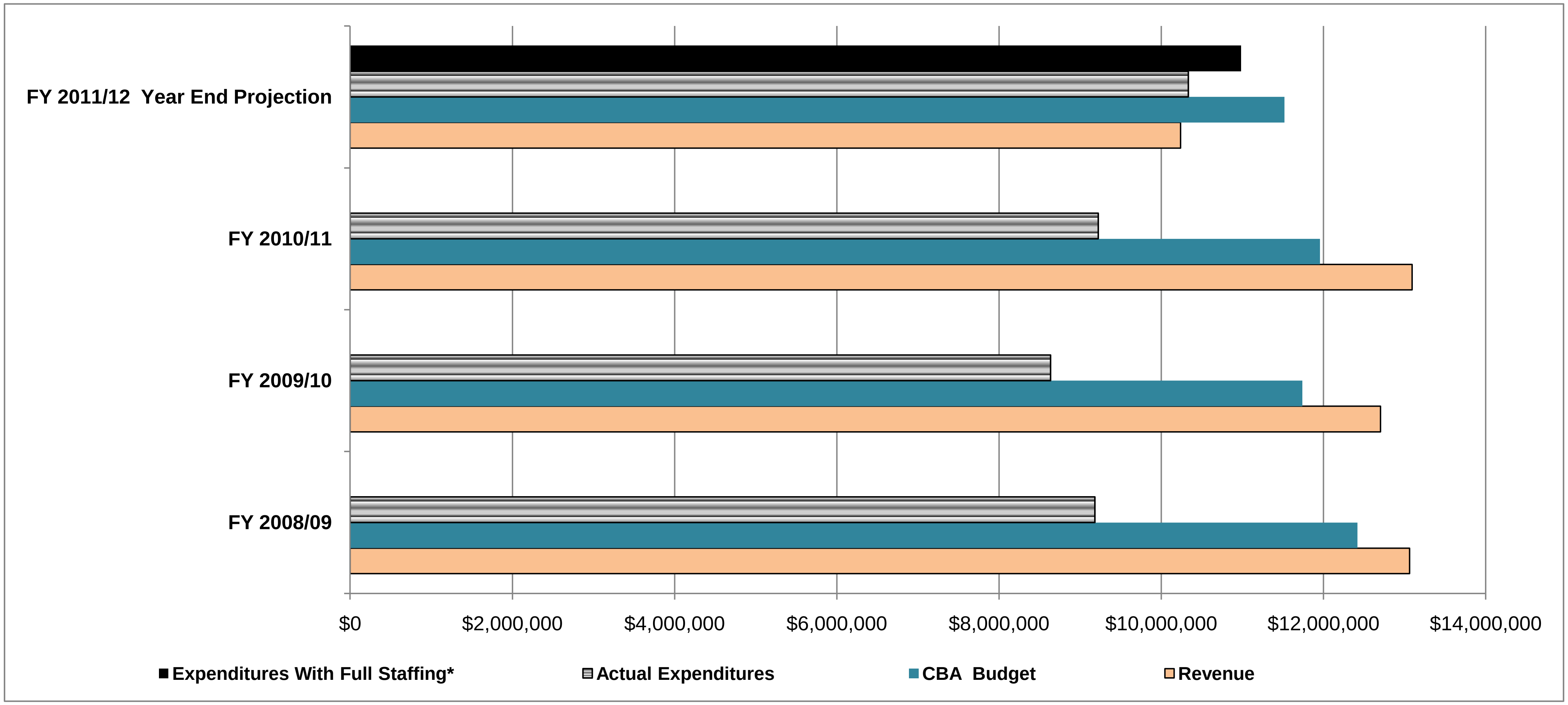
*** Dollars spent through September 30, 2011.**

CBA Total Revenue and Expenditures
FY 2011-12

Attachment 2

Year-End Projection

Revenue:	**$10,237,891**
Expenditures:	**$10,333,928**
With full staffing:	**$10,986,266**



* Expenditures assuming full staffing (no vacancies) amount to an additional $652,338 in projected salaries and benefits.

CALIFORNIA BOARD OF ACCOUNTANCY

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CBA Item IV.B
November 17-18, 2011

Update on CBA 2010-2012 Communications & Outreach Plan

Presented by: Lauren Hersh, Information & Planning Manager
Date: November 1, 2011

Purpose of the Item
To keep CBA members informed of communications and outreach efforts and activities.

Action(s) Needed
No specific action is required on this agenda item.

Background
As requested by the CBA, staff is providing regular updates regarding the communications and outreach activities which have taken place since the last CBA meeting.

Staff Outreach Committee (OC)
The OC has been working to maximize outreach within the limitations imposed by purchasing and travel restrictions. As a result, the focus has been on utilizing technology to continue outreach. Recently completed and current projects are:

- YouTube Peer Review video – The video is being re-edited and will be posted to the CBA website and YouTube when complete.
- Staff is currently developing a peer review webinar in response to requests for outreach presentations.

Social media
Through social media, the CBA is strengthening its brand by creating community and serving as an online resource for stakeholders.

- A live Facebook event, "Getting to Know the New Licensure Requirements" was held October 20th, from 10 a.m. - 11a.m. and again from 2 p.m. - 3 p.m.
- Facebook growth continues, with over 900 facebook fans. Through the power of social "compound interest," that translates into more than 85,000 people who have read our posts on facebook over the last four weeks. Twitter growth continues as well, with more than 500 Twitter followers and 15 lists.

UPDATE
As requested by the CBA members, the fall 2011 edition of *UPDATE* will be mailed to

the entire list of licensees and interested parties, with a notice that this is the final hard copy of UPDATE they will receive unless they choose to opt-in via the CBA website for hard copy delivery. The redesigned hard copy is expected to be mailed by the Office of State Publishing in December, with the online, digital version made available in early November.

Consumer Assistance Booklet

The newly revised Consumer Assistance Booklet has completed legal review and been submitted to the DCA Office of Publications, Design and Editing. Once approved, it will be redesigned to be compatible with other redesigned CBA publications.

E-News

E-News subscriptions have increased by more than 1,500 subscriptions since the last report. The number of subscriptions to Examination Applicant news dropped a bit, but there was a corresponding increase in those subscribing to Licensing Applicant news. The largest increase was notably those requesting the delivery of UPDATE via E-News. The table below indicates the number of subscribers by areas of interest, with many subscribers choosing more than one area of interest.

List Name	External	Internal	Total
California Licensee	4,953	43	4,996
Consumer Interest	2,375	48	2,423
Examination Applicant	1,470	38	1,508
Licensing Applicant	1,990	41	2,031
Out-of-State Licensee	1,235	36	1,271
Statutory/Regulatory	4,030	50	4,080
CBA Meeting Info & Agenda Materials	1,600	28	1,628
UPDATE Publication	1,746	6	1,752
Total subscriptions	19,399	290	19,689

Comments

None

Recommendation

Staff has no recommendation on this item.

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CBA Item IV.C.
November 17-18, 2011

Proposed Reportable Events/Conditions for Denial of CPA Licensure

Presented by: Paul Fisher, Supervising Investigative CPA
Date: November 2, 2011

Purpose of the Item

To provide the CBA members the opportunity to consider, in the interest of consumer protection, if there are additional events that should be reported under California Business and Professions Code Section 5063, the CBA's reportable event statute **(Attachment 1)**.

Action(s) Needed

No specific CBA action is required for this agenda item. If the CBA determines additional events should be reported under Section 5063, directions can be provided to staff to further develop the desired reporting requirements.

Background

Effective January 1, 1997, California Business and Professions Code Section 5063 was added to the California Accountancy Act. This reportable event statute required licensees to report to the CBA conviction of any felony or of any crime related to the practice of public accountancy, including any crime involving theft, embezzlement, misappropriation of funds or property, fraud, and breach of a fiduciary responsibility. License cancellation, revocation, or suspension of the right to practice before any other state, governmental body, or foreign country must also be reported.

The CBA believed that this self-reporting statute would assist staff to promptly identify disciplinary matters which might otherwise go unreported, reduce disciplinary costs, and provide for greater public protection.

In January 2003, the self-reporting requirements in Section 5063 were expanded to include[1]:

[1] Effective January 1, 2012, the reporting requirements for restatements will be amended. Section 5063.10 **(Attachment 2)**, which will exempt the reporting requirement for any restatement that is filed with the United States Securities and Exchange Commission, will be added to the California Business and Professions Code.

- Any restatement of a financial statement reporting the correction of any error in a previously issued financial statement for a client that is:
  - A publicly traded company required to file a tax return with the California Franchise Tax Board.
  - A governmental agency located in California when the financial restatement(s) exceeds the planning materiality used in conjunction with the current year audit.
  - A charitable organization registered by the Office of the Attorney General's Registry of Charitable Trusts, when the restatement has resulted in the filing of an amended or superseding Internal Revenue Service Form 990 or 990F.
- Civil action settlements or arbitration awards in the amount of $30,000 or greater and where the licensee is not insured for the full amount of the award.
- Civil action judgments that contain allegations of:
  - Dishonesty, fraud, gross negligence, or negligence.
  - Breach of fiduciary responsibility.
  - Preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.
  - Embezzlement, theft, misappropriation of funds or property, or obtaining money, property, or other valuable consideration by fraudulent means or false pretenses, or other errors or omissions.
  - Any actionable conduct by the licensee in the practice of public accountancy, the performance of bookkeeping operations, or other professional practice.
- Any notice of the opening or initiation of a formal investigation by the Securities & Exchange Commission (SEC) or its designee, or the Public Company Accounting Oversight Board or its designee.
- Any notice from the SEC to a licensee requesting a Wells Submission.

In addition, Section 5063.1 **(Attachment 2)** was added in January 2003 to require courts to report to the CBA convictions or judgments similar to the convictions and judgments set forth in Section 5063. Section 5063.2 **(Attachment 2)** was also added to require insurers to report civil action settlements or arbitration awards greater than $30,000.

The goal of these additional reporting requirements was to enhance the CBA’s ability to provide meaningful regulation of the accountancy profession in response to the major audit failures of several corporations beginning approximately in the year 2000.

<u>Comments</u>

The current self-reporting statute reflects unprofessional conduct that may be a cause for discipline under California Business and Professions Code Section 5100 **(Attachment 3)**, as well as acts or crimes considered to be substantially related to the qualifications, functions, and duties of a certified public accountant under California Code of Regulations, Title 16, Division 1, Section 99 **(Attachment 4)**.

There has been a suggestion that the CBA consider adding “bankruptcy” as a reportable event and grounds for disciplinary action. DCA legal counsel, Kristy Shellans, has advised that under current law, the CBA does not have the authority to require reporting or to discipline a licensee merely for filing for bankruptcy.
Ms. Shellans has also stated that she does not believe any law permitting the CBA to revoke a license based on the fact that a licensee sought relief in bankruptcy would be legally or constitutionally defensible. The California Supreme Court has stated that laws permitting a state agency to take action based merely on an individual obtaining relief in bankruptcy are considered invalid attempts to frustrate the purpose of the federal Bankruptcy Act and, therefore, are considered in violation of the federal Supremacy Clause.

CBA staff conducted a NASBA quick poll to other state boards of accountancy to inquire whether other boards have a bankruptcy reporting requirement. Two (North Carolina and South Dakota) of the 24 jurisdictions that responded stated that they require licensees to report bankruptcies

North Carolina stated that it is only interested in bankruptcy proceedings if they involve any charges of fraud or criminal activity by the CPA in the bankruptcy. The North Carolina statute **(Attachment 5)** requires notification of any bankruptcy action which is grounded upon an allegation of professional negligence, gross negligence, dishonesty, fraud, misrepresentation, incompetence, or a violation of any federal or state tax law.

South Dakota does not require the reporting of bankruptcy in its statutes, but on the certificate renewal application, notification and an explanation is required if the CPA has been a party to a bankruptcy action, the basis of which is grounded upon an allegation of negligence, dishonesty, fraud, misrepresentation, or incompetence **(Attachment 6).**

Another separate suggestion related to the expansion of reportable events is to make unpaid state and federal income taxes reportable to the CBA. Staff has no information to provide members with regards to this issue, other than to confirm that unpaid income taxes are currently not a reportable event.

Finally, CBA staff are frequently asked if foreclosure or entering into a “short sale” are reportable events. Currently, these are not reportable events.

<u>Recommendation</u>
None.

Attachments

Attachment 1: California Business and Professions Code, Division 3, Chapter 1, Section 5063.

Attachment 2: California Business and Professions Code, Division 3, Chapter 1, Section 5063.10; Section 5063.1 and Section 5063.2.

Attachment 3: California Business and Professions Code, Division 3, Chapter 1, Section 5100.

Attachment 4: California Code of Regulations, Title 16, Division 1, Section 99.

Attachment 5: North Carolina Accountancy Rule 21 NCAC 08N .0208.

Attachment 6: South Dakota Active Certificate Renewal Application.

California Business and Professions Code

Section 5063. (a) A licensee shall report to the board in writing of the occurrence of any of the following events occurring on or after January 1, 1997, within 30 days of the date the licensee has knowledge of these events:

(1) The conviction of the licensee of any of the following:

(A) A felony.

(B) Any crime related to the qualifications, functions, or duties of a public accountant or certified public accountant, or to acts or activities in the course and scope of the practice of public accountancy.

(C) Any crime involving theft, embezzlement, misappropriation of funds or property, breach of a fiduciary responsibility, or the preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information. As used in this section, a conviction includes the initial plea, verdict, or finding of guilt, pleas of no contest, or pronouncement of sentence by a trial court even though that conviction may not be final or sentence actually imposed until appeals are exhausted.

(2) The cancellation, revocation, or suspension of a certificate, other authority to practice or refusal to renew a certificate or other authority to practice as a certified public accountant or a public accountant, by any other state or foreign country.

(3) The cancellation, revocation, or suspension of the right to practice as a certified public accountant or a public accountant before any governmental body or agency.

(b) A licensee shall report to the board in writing the occurrence of any of the following events occurring on or after January 1, 2003, within 30 days of the date the licensee has knowledge of the events:

(1) Any restatement of a financial statement and related disclosures by a client audited by the licensee.

(2) Any civil action settlement or arbitration award against the licensee relating to the practice of public accountancy where the amount or value of the settlement or arbitration award is thirty thousand dollars ($30,000) or greater and where the licensee is not insured for the full amount of the award.

(3) Any notice of the opening or initiation of a formal investigation of the licensee by the Securities and Exchange Commission or its designee.

(4) Any notice from the Securities and Exchange Commission to a licensee requesting a Wells Submission.

(5) Any notice of the opening or initiation of an investigation by the Public Company Accounting Oversight Board or its designee, as defined pursuant to subdivision (g).

(c) A licensee shall report to the board in writing, within 30 days of the entry of the judgment, any judgment entered on or after January 1, 2003, against the licensee in any civil action alleging any of the following:

(1) Dishonesty, fraud, gross negligence, or negligence.

(2) Breach of fiduciary responsibility.

(3) Preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.

(4) Embezzlement, theft, misappropriation of funds or property, or obtaining money, property, or other valuable consideration by fraudulent means or false pretenses, or other errors or omissions.

(5) Any actionable conduct by the licensee in the practice of public accountancy, the performance of bookkeeping operations, or other professional practice.

(d) The report required by subdivisions (a), (b), and (c) shall be signed by the licensee and set forth the facts which constitute the reportable event. If the reportable event involves the action of an administrative agency or court, then the report shall set forth the title of the matter, court or agency name, docket number, and dates of occurrence of the reportable event.

(e) A licensee shall promptly respond to oral or written inquiries from the board concerning the reportable events, including inquiries made by the board in conjunction with license renewal.

(f) Nothing in this section shall impose a duty upon any licensee to report to the board the occurrence of any of the events set forth in subdivision (a), (b), or (c) either by or against any other licensee.

(g) The board may adopt regulations to further define the reporting requirements of this section.

Attachment 2

California Business and Professions Code

New Statute, Effective January 1, 2012

Section 5063.10. (a) Any restatement of a financial statement that is included in any report filed with the United States Securities and Exchange Commission shall be exempt from the requirement described in paragraph (1) of subdivision (b) of Section 5063.

(b) Nothing in this section shall be construed to require the reporting of any restatement of a financial statement that is not required to be submitted to the board pursuant to the regulations adopted by the board in effect on the date this section becomes operative.

Current Statutes, Effective January 1, 2003

Section 5063.1. Within 10 days of entry of a conviction described in paragraph (1) of subdivision (a) of Section **5063** or a judgment described in subdivision (c) of Section **5063** by a court of this state, the court that rendered the conviction or judgment shall report that fact to the board and provide the board with a copy of the conviction or judgment and any orders or opinions of the court accompanying or ordering the conviction or judgment.

Section 5063.2. Within 30 days of payment of all or any portion of any civil action settlement or arbitration award against a licensee of the board in which the amount or value of the settlement or arbitration award is thirty thousand dollars ($30,000) or greater, any insurer or licensed surplus broker providing professional liability insurance to that licensee shall report to the board the name of the licensee, the amount or value of the settlement or arbitration award, the amount paid by the insurer or licensed surplus broker, and the identity of the payee.

Attachment 3

California Business and Professions Code

Section 5100. After notice and hearing the board may revoke, suspend, or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct that includes, but is not limited to, one or any combination of the following causes:

(a) Conviction of any crime substantially related to the qualifications, functions and duties of a certified public accountant or a public accountant.

(b) A violation of Section 478, 498, or 499 dealing with false statements or omissions in the application for a license, in obtaining a certificate as a certified public accountant, in obtaining registration under this chapter, or in obtaining a permit to practice public accountancy under this chapter.

(c) Dishonesty, fraud, gross negligence, or repeated negligent acts committed in the same or different engagements, for the same or different clients, or any combination of engagements or clients, each resulting in a violation of applicable professional standards that indicate a lack of competency in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052.

(d) Cancellation, revocation, or suspension of a certificate or other authority to practice as a certified public accountant or a public accountant, refusal to renew the certificate or other authority to practice as a certified public accountant or a public accountant, or any other discipline by any other state or foreign country.

(e) Violation of Section 5097.

(f) Violation of Section 5120.

(g) Willful violation of this chapter or any rule or regulation promulgated by the board under the authority granted under this chapter.

(h) Suspension or revocation of the right to practice before any governmental body or agency.

(i) Fiscal dishonesty or breach of fiduciary responsibility of any kind.

(j) Knowing preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.

(k) Embezzlement, theft, misappropriation of funds or property, or obtaining money, property, or other valuable consideration by fraudulent means or false pretenses.

(l) The imposition of any discipline, penalty, or sanction on a registered public accounting firm or any associated person of such firm, or both, or on any other holder of a permit, certificate, license, or other authority to practice in this state, by the Public Company Accounting Oversight Board or the United States Securities and Exchange Commission, or their designees under the Sarbanes-Oxley Act of 2002 or other federal legislation.

(m) Unlawfully engaging in the practice of public accountancy in another state.

California Code of Regulations

§ 99. Substantial Relationship Criteria.

For the purposes of denial, suspension, or revocation of a certificate or permit pursuant to Division 1.5 (commencing with Section 475) of the Business and Professions Code, a crime or act shall be considered to be substantially related to the qualifications, functions or duties of a certified public accountant or public accountant if to a substantial degree it evidences present or potential unfitness of a certified public accountant or public accountant to perform the functions authorized by his or her certificate or permit in a manner consistent with the public health, safety, or welfare. Such crimes or acts shall include but not be limited to those involving the following:
(a) Dishonesty, fraud, or breach of fiduciary responsibility of any kind;
(b) Fraud or deceit in obtaining a certified public accountant's certificate or a public accountant's permit under Chapter 1, Division III of the Business and Professions Code;
(c) Gross negligence in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052 of the code;
(d) Violation of any of the provisions of Chapter 1, Division III of the Business and Professions Code or willful violation of any rule or regulation of the board.

NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 481 and 5100, Business and Professions Code.

North Carolina Accountancy Rules

21 NCAC 08N .0208. REPORTING CONVICTIONS, JUDGMENTS, AND DISCIPLINARY ACTIONS

(a) Criminal Actions. A CPA shall notify the Board within 30 days of any conviction or finding of guilt of, pleading of *nolo contendere,* or receiving a prayer for judgment continued to any criminal offense.

(b) Civil Actions. A CPA shall notify the Board within 30 days of any judgment or settlement in a civil suit, bankruptcy action, administrative proceeding, or binding arbitration, the basis of which is grounded upon an allegation of professional negligence, gross negligence, dishonesty, fraud, misrepresentation, incompetence, or violation of any federal or state tax law and which was brought against either the CPA or a North Carolina office of a CPA firm of which the CPA was a managing partner.

SOUTH DAKOTA BOARD OF ACCOUNTANCY
301 East 14th Street, Suite 200
Sioux Falls, SD 57104
(605) 367-5770

Attachment 6

ACTIVE CERTIFICATE RENEWAL APPLICATION FOR THE YEAR ENDING JULY 31, 2012

The active certificate fee is $50 if filed by August 1, 2011 ($100 if filed after August 1, 2011)
Make check payable to the SD Board of Accountancy. No cash please.

1. (a) Full Name ______________ ______________ ______________
First Middle Last

2. (a) Residence______________ ______________ ______ ______
Street City State Zip

(b) Phone Number ______________ e-mail ______________

3. (a) Employer Name ______________

(b) Employer Address ______________ ______________ ______ ______
Street City State Zip

(c) Employer Phone ______________ e-mail______________

4. SD CPA Certificate Number ______________ Date Issued ______________

5. ☐ **I wish to receive mailings at my residence** ☐ **I wish to receive mailings at my business**

6. Other than the one listed in 4, list all states in which you have applied or may hold a certificate or license to practice public accountancy.

State	Permit Number	Certificate Number	Date Issued	Current Status

NOTE: Pursuant to SDCL 36-20B-29, each holder of or applicant for a certificate shall notify the Board in writing within thirty (30) days after its occurrence of any issuance, denial, revocation or suspension of a certificate, license, or permit by another state, or any change of address, employment, or conviction of a felony. If you answer "Yes" to any of the questions below, you must provide a statement of explanation with this application. Since your last renewal:

○ yes ○ no Have you been charged, arrested, convicted, found guilty of, received a prayer for judgment continued, or pleaded nolo contendere to any criminal offense (excluding non-criminal traffic infractions)?

○ yes ○ no Have you had an application for a certificate or license denied or a certificate or license suspended, canceled, or revoked by any state or federal agency, or governing or licensing board?

○ yes ○ no Have you been investigated, charged, or disciplined; or are you currently under investigation by a governing or licensing board or by a state or federal agency or the AICPA or any state CPA society?

* [○ yes ○ no Have you been party to any civil suit, bankruptcy action, administrative proceeding, or binding arbitration; the basis of which is grounded upon an allegation of negligence, dishonesty, fraud, misrepresentation, or incompetence?]

CERTIFIED TRUE STATEMENT

I, the undersigned, declare and affirm under the penalties of perjury that this claim (petition, application, information) has been examined by me, and to the best of my knowledge and belief, is in all things true and correct. Any person who signs such statement as provided for in this section, knowing the same to be false or untrue, in whole or in part, shall be guilty of perjury. I understand when a certificate is issued to me, that it must be surrendered upon demand by the State Board of Accountancy if I fail to pay the fees or upon its revocation by the State Board for other causes as prescribed by law.

Date______________ Signature______________

FRAUD OR DECEIT IN THIS APPLICATION IS CAUSE FOR DENIAL OR REVOCATION OF CERTIFICATE.

CALIFORNIA BOARD OF ACCOUNTANCY

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: *http://www.cba.ca.gov*

CBA Item IV.D.
November 17-18, 2011

Financial Accounting Foundation (FAF) Request for Comments on Plan to Establish the Private Company Standards Improvement Council

Presented by: Paul Fisher, Supervising Investigative CPA
Date: November 2, 2011

Purpose of the Item

This item presents for discussion the Financial Accounting Foundation (FAF) Board of Trustees' *Plan to Establish the Private Company Standards Improvement Council*.

Action Needed

The California Board of Accountancy (CBA) is requested to deliberate on the FAF's plan and determine if the CBA will submit a written comment. Written comment must be submitted to the FAF Board of Trustees by January 14, 2012.

Background

The Generally Accepted Accounting Principles (GAAP) have been the accounting rules used to prepare, present, and report financial statements for all U.S. companies since the 1930s. These standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA). Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing GAAP.

However, for more than 30 years, privately-held companies have been frustrated in that the accounting standards appear to be geared toward the needs of publicly-traded companies. As a result, private companies and the users of their financial statements have faced problems because some standards are unnecessarily complex and do not produce relevant information.

In an effort to incorporate the views of private companies in the standard setting process, the FASB created the Private Company Financial Reporting Committee

(PCFRC) in 2006. The mission of the PCFRC was to provide recommendations to the FASB on issues related to standard setting for private companies.

Blue Ribbon Panel

In December 2009, the AICPA, the Financial Accounting Foundation (FAF), the parent organization of the FASB, and the National Association of State Boards of Accountancy (NASBA) established a Blue-Ribbon Panel (BRP) to address how accounting standards can best meet the needs of users of U.S. private company financial statements.

The BRP issued its report **(Attachment 1)** to the FAF Board of Trustees in January 2011. (The report was presented as an informational item at the September 22, 2011, CBA meeting.)

Blue Ribbon Panel Report

The BRP recommended that the FAF create a separate private company accounting standard-setting board with the ultimate standard-setting authority. The board's mission would be to establish appropriate exceptions and modifications to GAAP for private companies, while helping to ensure that users of private company financial reports receive decision-useful information. The BRP also recommended the creation of a differential framework (set of decision critera) to enable the board to evaluate and justify exceptions and modifications.

Further, the BRP recommended that accounting standards for private companies be based on existing GAAP, but with exceptions and modifications that would result in financial statements that provide relevant information that meets the needs of users of private company financial statements in a cost-effective manner. The BRP basically advocated a model that contemplates the continued use of GAAP for public and private companies, with exceptions and modifications made for private companies.

In its recommendations, the BRP cited a number of factors supporting the use of a GAAP-with-exceptions-and-modifications model over other models considered, including the following:

- Changes can be achieved quickly.
- Maintains a significant degree of consistency and comparability between public and private companies.
- Minimizes the costs to private companies that choose to "go public."
- Avoids confusion and system complexity from two highly divergent sets of GAAP.
- Has lower education and training costs.

Further, the BRP concluded that a separate private company board:

- Could provide appropriate structural separation from the pressures that the FASB faces in addressing the needs of public company stakeholders, including the SEC.
- Could better address the different needs of private company financial statement users given the targeted focus on one constituency.

Financial Accounting Foundation Working Group

In March 2011, the FAF established a working group consisting of several FAF Trustees and senior FAF staff members to analyze the BRP report and to conduct outreach to users, practitioners, and preparers of private company financial statements in order to further consider standard setting for private companies. As a result of FAF's outreach, study, deliberations, and analysis of the BRP report, the FAF issued its *Plan to Establish the Private Company Standards Improvement Council* (PCSIC) **(Attachment 2)** on October 4, 2011.

Financial Accounting Foundation Plan

The FAF plan proposes the establishment of a "Private Company Standards Improvement Council" (PCSIC) to improve the standard-setting process for private companies. Based on specific criteria developed jointly with the FASB, the PCSIC would identify aspects of existing GAAP that it believes require exceptions or modifications for private companies. The PCSIC would obtain input from a broad array of interested parties before proposing any changes to the FASB for ratification. Changes ratified by the FASB would be submitted for public comment.

The composition of the PCSIC would be a chair and 11 to 15 members, selected and appointed by FAF Trustees. The chair would be a FASB member having substantial experience with and exposure to private companies during his or her career. Members would include users, preparers, and practitioners who have significant experience with private company financial statements. The FAF would have oversight responsibility for the PCSIC, and the PCSIC would provide periodic reports to committees made up of FAF Trustees. The FAF would conduct an overall assessment at the end of a three-year period to determine if the PCSIC's mission is being met and whether further changes to the standard-setting process for private companies would be warranted.

In deciding on these recommendations, the FAF observed the following:

- Creation of a separate standard-setting board would likely result in two sets of GAAP (informally described as "big GAAP" and "little GAAP") over time.
- The complexity and relevance of GAAP to private companies appear to involve a small but key group of standards. Improvements should focus on those standards first.
- The FASB has made recent changes to how it engages with private company constituents and has demonstrated a greater operational and structural commitment to further address private company issues.
- The PCFRC has not been wholly successful in achieving its mission in part because the FASB and the PCFRC did not integrate their objectives and processes.

Comments
Both the BRP report and the FAF plan agree that current GAAP does not address the needs of private companies and that exceptions and modifications for private companies should be made to existing GAAP. However, each has a different vision regarding where the final authority for making the private company exceptions and modifications to GAAP should be.

The BRP envisions the establishment of a separate private company standards board, under the oversight of the FAF, to help ensure that appropriate and sufficient exceptions and modifications are made for both new and existing standards. That new board would work closely with the FASB to achieve a coordinated and efficient standard-setting process, but the new board would have final authority over such exceptions and modifications. A differential framework (set of decision criteria) would be created to facilitate a standard setter's ability to make appropriate, justifiable exceptions and modifications.

The FAF envisions the establishment of the PCSIC, under the oversight of the FAF, to improve the standard-setting process for private companies. The PCSIC would identify aspects of existing GAAP that require exceptions or modification for private companies; however, the FASB would have the final authority for any proposed changes. The PCSIC, jointly with the FASB, would develop a set of specific criteria to determine whether and when exceptions or modifications are warranted for private companies.

NASBA issued a statement **(Attachment 3)** praising FAF's outreach and sent correspondence **(Attachment 4)** to the State Boards of Accountancy expressing support of the plan. NASBA believes that changes are needed in U.S. accounting standard setting; however, they disagreed with the BRP majority view that a separate autonomous private-entity accounting standard setting board should be created, stating that a separate board would lead to differential accounting standards and measurement based solely on an entity's capital structure, rather than economics of underlying transactions. A single board lessens the risk of unintentionally diverging to a separate set of private company GAAP standards.

The AICPA also issued statements **(Attachments 5 and 6)**; however, the AICPA expressed its profound disappointment that the FAF plan does not propose the creation of a new, independent board to set differences in GAAP standards, where appropriate, for privately held companies, as recommended in the BRP report. The AICPA agreed with the BRP report that throughout history, the FASB has been heavily geared, in its composition and its processes, toward public companies, and GAAP exceptions and modifications for private companies have been too rare and extremely difficult to achieve. The AICPA referenced the PCFRC and PCSIC, stating that without an autonomous board, it would be a continuation of what already existed, but didn't work. Members of a board with authority to set standards for private companies must possess the perspective of those stakeholders. The FASB cannot be sufficiently restructured or possess enough of the essential private company representation needed to set GAAP differences for private companies.

One additional item of note – input received by the BRP during its study included comments from several CPA firms with over 500 partners regarding the International Financial Reporting Standards (IFRS). They believed that any substantial recommendations for change might be premature in light of the SEC's forthcoming decision regarding IFRS for public companies. Although the SEC's actions would only directly affect public companies, there would be ramifications for private companies as well. Actions to change GAAP may result in unnecessary confusion and complication.

Recommendation
None.

Attachments
1. Blue-Ribbon Panel on Standard Setting for Private Companies Report to the Board of Trustees of the Financial Accounting Foundation, dated January 2011.
2. The Financial Accounting Foundation Board of Trustees *Plan to Establish the Private Company Standards Improvement Council*, dated October 4, 2011.
3. NASBA News Release, "NASBA Praises the FAF's Outreach," dated October 4, 2011.
4. Memo to the State Boards of Accountancy from the NASBA Executive Committee regarding Financial Accounting Foundation's Proposal, dated October 4, 2011.
5. Statement from Barry Melancon, AICPA President and CEO, and Paul Stahlin, AICPA Chair, Addressing FAF's Failure to Create an Independent Standard Setting Board for Private Company Financial Reporting, dated October 4, 2011.
6. AICPA News Release, "Independent Board is Needed for PCGAAP," dated October 17, 2011.

Attachment 1

Blue-Ribbon Panel on Standard Setting for Private Companies

Report to the Board of Trustees of the Financial Accounting Foundation

January 2011

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BLUE-RIBBON PANEL (BRP) ON STANDARD SETTING FOR PRIVATE COMPANIES

I. EXECUTIVE SUMMARY

In December 2009, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Foundation (FAF), the parent organization of the Financial Accounting Standards Board (FASB), and the National Association of State Boards of Accountancy (NASBA) established a "blue-ribbon" panel (the Panel or BRP) to address how accounting standards can best meet the needs of users of U.S. private company financial statements.[1] The Panel was charged with providing recommendations on the future of standard setting for private companies to the FAF Board of Trustees (the Trustees). (See Appendices A and B for additional information about the Panel and the conduct of its work.) This report represents the culmination of the Panel's work and includes its members' recommendations to the Trustees.[2]

The Panel has concluded that there are urgent and growing systemic issues that need to be addressed in the current system of U.S. accounting standard setting. The Panel members believe that the system has not done a sufficient job of (a) understanding the information that users of private company financial statements consider decision-useful and how those information needs differ from those of users of public company financial statements and of (b) weighing the costs and benefits of GAAP for use in private company financial reporting. These issues have caused a lack of relevance of a number of accounting standards for many users of private company financial statements and an overall level of complexity in U.S. GAAP that continues to concern preparers of private company financial statements and their CPA practitioners. Some members believe that GAAP is overly complex for public companies, too. Many Panel members believe that within the U.S. marketplace, significant, unnecessary cost is being incurred for GAAP financial statement preparation and audit, review, or compilation services. Thus, change is urgently needed.

This report proposes major and other enhancements aimed at fostering an accounting standard-setting system that would seek to maintain a high degree of financial reporting comparability for business entities, regardless of capital structure, but also significantly increase the chances of effecting potential differences, where warranted, in measurement, recognition, and presentation, and not just disclosure. The Panel believes that, at least in the near term, the system should focus on making exceptions and modifications to U.S. GAAP for private companies that better respond to the needs of the private company sector rather than move toward a separate, self-contained GAAP for private companies or a wholesale reorganization of GAAP.

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[1] While some stakeholders had suggested that the Panel's work include private-sector not-for-profit entities (NPEs) as well, the Panel has limited its work to private for-profit companies. The Panel acknowledges that many NPEs have a much broader and somewhat different set of users of their GAAP financial statements, either directly or indirectly (through the IRS's Form 990), than do many private companies.

[2] As noted in Appendix A, the Panel or BRP comprises 18 members (including 1 nonvoting member) but also benefited from input from several nonvoting participating observers. References in this report to Panel conclusions and recommendations should be interpreted as those of its voting members rather than its participating observers. The BRP acknowledges that on January 14, 2011, the FAF announced the appointment of Daryl Buck to the FASB for a term beginning February 28, 2011. In light of this announcement, Mr. Buck resigned as a member of the BRP on January 17, 2011, and did not participate in the final vote.

One major enhancement, supported by a supermajority of Panel members, is to establish, under the FAF's oversight, a separate private company standards board to help ensure that appropriate and sufficient exceptions and modifications are made, for both new and existing standards. That new board would work closely with the FASB to achieve a coordinated and efficient standard-setting process but would have final authority over such exceptions and modifications. A comprehensive review of the new board would be conducted in three-to-five years to evaluate its effectiveness and determine whether to maintain it as is, make additional process improvements, or sunset it.

Another major enhancement, supported by all Panel members, is to create a differential framework (set of decision criteria) to facilitate a standard setter's ability to make appropriate, justifiable exceptions and modifications.

The Panel is also recommending certain short-term and transitional actions by the FAF and the FASB to provide near-term relief for private companies and help ensure a smooth transition to a new board.

These recommendations were developed after examining a full range of options that included everything from maintaining the status quo to developing an entire new set of standards for private companies. In making the recommendation for a new board, the Panel has considered the actions currently under way by the FASB to help improve the standard-setting process for private companies (including those described in Appendix F), along with the recommended short-term and transitional actions. A supermajority of the Panel believes that these actions do not remove the need or the urgency for a new standards board for private companies.

Section II of this report contains the Panel's principal recommendations of a U.S. GAAP model with exceptions and modifications for private companies and a separate private company accounting standards board to set those exceptions and modifications. Section III describes the problems that the Panel has identified in the current standard-setting system. Section IV describes why the Panel believes its recommendations will best address the problems identified. Section V contains the recommendations that the Panel believes are important in helping transition to and otherwise achieving the recommended model and structure. Section VI captures alternative views held by a small minority of the Panel members.

We urge the Trustees of the FAF to consider carefully and act upon each of the recommendations of the BRP, and we thank the FAF, the AICPA, and the NASBA for requesting us to consider this important issue.

II. BRP RECOMMENDATIONS ON STANDARD-SETTING MODEL AND STRUCTURE

- **GAAP with exceptions and modifications for private companies (with process enhancements)**
- **Separate private company accounting standards board**

The BRP recommends a U.S. GAAP model with exceptions and modifications for private companies, with process enhancements. A supermajority of BRP members further recommend that a separate private company standard-setting board under the FAF be established to ensure that those enhancements are made and result in appropriate and sufficient exceptions and modifications for private companies.

A. RECOMMENDED MODEL

U.S. GAAP with Exceptions and Modifications for Private Companies (with Process Enhancements)

The BRP recommends that accounting standards for private companies be based on existing U.S. GAAP (The *FASB Accounting Standards Codification*™) but with exceptions and modifications that would result in financial statements that provide relevant, decision-useful information that meets the needs of users of private company financial statements in a cost-effective manner. Private company accounting standards under this model would be based on existing U.S. GAAP modified as necessary in the standard-setting process. This model contemplates the continued use of U.S. GAAP for public and private companies, with exceptions and modifications made for private companies. The BRP believes that appropriate modifications and exceptions to existing GAAP should be made to better meet the needs of users of private company financial information. This could result in different measurement, disclosure, presentation, and recognition standards for private companies, but the modifications and exceptions would have to be justified using a differential framework (set of decision criteria) and not created just for the sake of having differences.

A cost-benefit analysis would be performed to take into account the costs to prepare, report on, and use the financial statements. The benefit side of the equation would consider whether or not users would be able to make appropriate decisions with the information provided and whether those users have access to management to obtain additional information. In other words, is the information in the financial statements relevant and necessary, and can additional information be made available to such users, if needed? The BRP understands that the cost-benefit analysis can sometimes be subjective in nature because of the difficulty in estimating the monetary consequences of omitting information in the financial statements or having one measurement attribute versus another.

Another important aspect of the BRP recommendations is the creation of a differential framework to enable the private company accounting standard-setting board to evaluate whether exceptions or modifications are needed for private companies. The BRP envisions the framework functioning as a guide to evaluate whether differences would be appropriate, rather than as an entirely new foundation from which to develop a separate body of GAAP for private companies. The BRP considers this framework, and the willingness to interpret the framework to create differences, to be essential to the successful implementation of this model. Historically, standards have been established with differential reporting for private companies without defining what should constitute a difference. This lack of a differential framework has contributed to the current private company concerns about relevance, complexity, and costs.

B. RECOMMENDED STRUCTURE

Separate Private Company Accounting Standards Board

To complement the model, a supermajority of BRP members recommend that the FAF create a separate accounting standards board (hereinafter referred to as "new board") with the ultimate standard-setting authority to determine and set exceptions and modifications in GAAP for private companies. The paragraphs below highlight some of the key features that the Panel recommends for the new board. Additional detail is provided in the chart in Appendix C.

<u>New Board Mission and Process</u>

As stated earlier, the new board's mission would be to establish appropriate exceptions and modifications to GAAP for private companies, while helping to ensure that users of private company financial reports receive decision-useful information. The new board would monitor the activities and deliberations of the FASB and work alongside the FASB as necessary to ensure that differences in GAAP for private companies, where warranted, are promulgated efficiently and effectively. The BRP believes the FASB, working with the new board, should try to develop the best possible standards for all entities. The differential framework, as discussed above, will help in determining whether differences in GAAP for private companies are warranted.

Either the new board or the FASB could promulgate differences depending on the circumstances of the topic. However, the Panel members believe it is critical that all differences reside in the one GAAP codification. For example, the FASB likely would not attempt to promulgate a difference on an existing GAAP standard that is not on its project agenda, and thus the task would be handled by the new board, which would initiate its own project. If a topic is on the FASB's agenda, the FASB might promulgate a difference (with the support of the new board) or the new board might promulgate a difference if the FASB believes such a difference is unwarranted.

Regardless of how the boards choose to operationalize the promulgation of differences on a facts-and-circumstances basis, the Panel believes that the ultimate authority to approve the exceptions and modifications should reside with the new board. The new board could also initiate its own projects as deemed necessary.

<u>Other Specifics on Board Recommendation</u>

The new board would consist of members that are representative of the private company sector and would work closely with the FASB. The new board would have the responsibility to conduct outreach to private company stakeholders and provide input and feedback to the FASB. Nothing would preclude the FASB from receiving input from private companies, but the specific responsibility for seeking such input would reside with the new board. The FASB and new board would each have official observers at their respective meetings to maintain effective two-way communication. (The FAF could further solidify this coordination by having the primary advisory board to the new board also advise the FASB on private company matters.) Much of the cost for the new board and staff would likely require funding by a viable, new source, such as mandatory annual or one-time (endowment) contributions from stakeholders.

Comprehensive Review of the New Board

The BRP believes that the FAF's oversight and governance should include a comprehensive review of the new board after three-to-five years. This comprehensive review should evaluate the effectiveness of the board and determine whether to maintain the board as is, make additional process improvements, or sunset the board. The FAF's review should include but not be limited to the following qualitative and quantitative measures:

- A survey to collect qualitative information from private-company-sector stakeholders, such as, but not limited to, financial statement users' concerns about relevance and complexity and preparers' and practitioners' concerns about complexity and cost-benefit. A baseline survey could be taken in the near future, and subsequent surveys would be compared with the results of the baseline survey.
- To the extent the information can be obtained, obtain quantitative information on the prevalence of (1) audit/review/compilation reports with GAAP exceptions and (2) Other Comprehensive Basis of Accounting (OCBOA) financial statements. Information obtained in subsequent years would then be compared to such baseline information.

Additionally, the BRP believes that the FAF's recently initiated post-implementation assessment of FASB and GASB standards also should apply to significant differences in GAAP that the new board may approve for private companies. Such reviews would be crucial in assessing how well the two-board system is functioning and also help assist the FAF in determining the next stage of evolution in standard setting for private companies as described below.

The BRP believes that the recommendations on the model and structure described above are the best solution to the problems in the current standard-setting system for private companies that are discussed in the following section. Section IV of the report provides the BRP's primary reasons for this belief.

III. WHAT THE RECOMMENDATIONS ARE ADDRESSING—THE PROBLEM STATEMENT

There are approximately 28 million private companies in the United States.[3] Many are very small businesses that have no reporting requirements other than filing income tax returns. However, a significant number of private companies are required to prepare GAAP financial statements by lenders, bonding companies, regulators, and others, in addition to the approximately 14,000 public companies, which have SEC reporting requirements. Most of the private companies preparing GAAP financial statements do not have the accounting resources that public companies have, especially larger public companies.

The BRP has concluded that the current U.S. accounting standard-setting process has systemic issues, involving (a) an insufficient understanding of the needs of users of private company financial statements and (b) an insufficient weighing of the costs and benefits of GAAP for use in private company financial reporting. These issues have caused a lack of relevance of a number of accounting standards—for example, those on variable interest entities, uncertain tax positions, fair value measurements, and goodwill impairment—for many users of private company financial statements. Since it also appears that the least relevant standards for private company users are often the most complex, the BRP believes that private companies are incurring significant unnecessary cost for GAAP financial statement preparation and audit, review, or compilation services. Indeed, the increase in costs to provide potentially irrelevant information has led to more users who are willing to accept qualified opinions—a development that calls into question whether those aspects of GAAP are truly "generally accepted." These increasing instances of nonacceptance, coupled with a concern about the overall complexity of GAAP expressed by many private company preparers and their CPA practitioners—a concern that some BRP members have noted extends to public companies as well—have led the BRP to conclude that, at a minimum, the current accounting standard-setting system needs to be improved to better address the needs of users of private company financial statements in a cost-effective manner.

Based on both the FASB's history and the competing standard-setting pressures on the FASB that are emanating from the public company sector, including those related to the FASB's joint projects with the International Accounting Standards Board (IASB), a supermajority of BRP members believe that the FASB will not be able to fully assess and respond sufficiently and appropriately to the needs of the private company sector.

In arriving at these conclusions, the BRP has considered:

- Previous studies

[3]This number is based on the U.S. Census Bureau's *Nonemployer Statistics: 2008* report (21.4 million nonemployer establishments) and *2008 County Business Patterns* report (7.0 million employer establishments, excluding not-for-profit and government establishments, and the approximately 14,000 public companies). Only businesses that are subject to federal income tax are included in the *Nonemployer Statistics: 2008* report. Accordingly, most not-for-profit entities are excluded from that figure, except those that are not exempt from federal income tax.

- The experience of the Private Company Financial Reporting Committee (PCFRC), as described primarily by the current PCFRC chair and a former PCFRC member, who serve as a participating observer and a BRP member,[4] respectively
- The FASB's activities historically
- The growing use of reports with GAAP exceptions and the availability of IFRS for Small and Medium-sized Entities (SMEs)
- Individual BRP members' perspectives (generally representing their constituent organizations) about the current system
- Feedback received through written public submissions
- The experience of international standard setters who have addressed similar issues.

PREVIOUS STUDIES

BRP members were given an overview of the numerous studies, reports, and recommendations on private company accounting that have been prepared over the last 40 years. (A full list of those studies and reports is contained in Appendix D.) Most of the older studies were practitioner-driven. The last time that the FASB formally researched the needs of private companies was in 1983. Since that time, the number of standards that have been issued by the FASB (now included in the Accounting Standards Codification) has increased greatly. Some private company constituencies have said that some of the more recently issued standards have shown little to no relevance to their users coupled with an overall increase in complexity of those standards. Two of the more noteworthy reports were the Wheat and Castellano Reports.

The Wheat and Castellano Reports, Conclusions, and Associated Activities

In 1971, the AICPA conducted a study (Study) that had a significant effect on the standard-setting process in the United States and produced what was called the Wheat Report. The Study was charged with examining the process and means by which accounting principles were established in the United States and providing recommendations for improvement. At that time, accounting standards were being established by the Accounting Principles Board (APB), a senior committee within the AICPA. The Study recommended the creation of the FAF and the FASB. The FAF would oversee the FASB, hence replacing the APB. The FASB would be an independent body with a full-time board and research staff. The Study reached this conclusion after reviewing and addressing the independence of the current APB board and the benefits and costs of having a part-time board. (Appendix E provides current information about how the FASB is constituted, operates, and is overseen by the FAF.)

After the creation of the FASB, there were a number of other studies (as listed in Appendix D) conducted that were generally focused in part on what the accounting profession calls "standards overload." The most recent study on private company accounting was done in 2005 by an AICPA task force, which produced what is referred to as the Castellano Report.

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[4]Daryl Buck was a PCFRC member from 2007 to 2009. The BRP acknowledges that on January 14, 2011, the FAF announced the appointment of Mr. Buck to the FASB for a term beginning February 28, 2011. In light of this announcement, Mr. Buck resigned as a member of the BRP on January 17, 2011, and did not participate in the final vote.

The AICPA formed the Private Company Financial Reporting Task Force (the Task Force) to conduct research to determine whether private company GAAP financial statements were meeting the needs of their users and whether the cost of providing GAAP financial statements was justified compared to the benefits of doing so. On the basis of the research performed, the Task Force concluded that the users of private company financial statements have different needs than users of public company financial statements, that GAAP exceptions and OCBOA should not be the resolution to the private company financial reporting problems, and that fundamental changes should be made to the current standard-setting process.

The Castellano Report was presented to the FAF Trustees in 2006. The FASB responded by issuing an Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard Setting for Private Companies*, and subsequently forming the PCFRC in 2007 and adding a staff member with extensive experience in the private company sector. That individual's role was to work with the PCFRC, otherwise liaise with the sector, educate the FASB Board and staff about private company issues, and offer alternatives for private companies during the standard-setting process.[5]

Because of the extensiveness of the research conducted in connection with the Castellano Report, and because the BRP's ensuing discussions and the responses contained in the written public submissions were generally consistent with the Castellano Report's findings, most BRP members do not believe that additional formal research is needed at this time.

THE PCFRC AND FASB ACTIVITIES SINCE 2007

The PCFRC began its work in 2007. By its charter, the PCFRC consists of a chair who is a part-time employee of the FASB, four users of private company financial statements (currently two commercial bank lenders, a surety, and a venture capitalist), four preparers of private company financial statements (current members represent companies with annual revenues ranging from $25 million to $1 billion), and four CPA practitioners (who have been from small to mid-size firms). Since very small private companies generally rely on their CPA firms to assist with the preparation of financial statements in accordance with GAAP, the CPA practitioners are seen as representing the smaller companies.

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[5]These changes built upon the FASB's creation of a Small Business Advisory Committee (SBAC) in 2004. Stakeholders viewed the SBAC as an important step forward in the standard-setting process, helping to put the Board more in touch with the concerns of smaller businesses, both public and private. However, some stakeholders also felt that the SBAC did not provide sufficient input for the Board to comprehensively address private company concerns.

Over the years, the SBAC has played a valuable role in providing strategic and other advice to the FASB about its standard-setting process and proposed and existing standards, as they pertain to small businesses, both public and private. In discussing standard setting for private companies, its members have noted that the informational needs of private company users are often different from those of public company investors and that those differences should be considered by the FASB throughout its projects. Its members have also called upon the FASB to continue to improve the Board's outreach to the private company sector throughout the standard-setting process.

The PCFRC's mission is to provide recommendations that will help the Board determine whether there should be differences in prospective and existing accounting standards for private companies. The PCFRC meets four to five times per year to evaluate existing and proposed standards from a private company perspective to develop positions for their recommendation letters. Consistent with the FASB's open due process, the PCFRC's meetings are open to the public. Beginning in April 2010, Board members began attending the PCFRC meetings on a rotating basis, allowing for better two-way communication.

The FASB addresses the PCFRC's recommendations and is supposed to articulate within the basis for conclusions section of standard-setting documents (both Exposure Drafts and final Accounting Standards Updates) the basis for its decisions on whether differences should exist for private companies.[6] Although the Board considers the recommendations received from the PCFRC, it has not always documented in the basis for conclusions why it did not agree with the PCFRC's recommendations.

Over time, internal changes have been made at the FASB to better focus on private company issues. In June 2009, an assistant staff director was named to oversee all nonpublic entity (private company and not-for-profit organization) issues. The BRP also notes that all recent Exposure Drafts have directly posed questions about how a proposed standard would affect nonpublic entities.[7]

The PCFRC has submitted approximately 40 recommendation letters since its formation in 2007. The Board, considering PCFRC input along with input from other sources, has made various modifications to standards, generally involving different effective dates for private companies and in some cases different disclosures. These changes notwithstanding, the PCFRC chair has indicated that many stakeholders in the private company sector have seen the PCFRC's work with the FASB as not being wholly successful because the FASB has not also shown a willingness to consider carefully and approve, where appropriate, the possibility of measurement, recognition, or presentation differences. (This message was echoed in the written public submissions.)

GROWING USE OF REPORTS WITH GAAP EXCEPTIONS AND AVAILABILITY OF IFRS FOR SMEs

Unlike other countries around the world, the United States has no statutory requirement for private companies, other than certain regulated companies such as financial institutions,[8] to prepare GAAP financial statements. Under current practice in the United States, private companies may report under U.S. GAAP or OCBOA (usually cash or income tax basis). Because the AICPA now recognizes the IASB as an authoritative standard setter, in many instances private companies (other than financial institutions) may also report under IFRS or IFRS for

[6]This requirement was articulated in the Invitation to Comment that preceded the PCFRC's formation (see p. 8).

[7]In recent months, the FASB has continued to make various changes to its processes concerning nonpublic entities, including transferring additional staff to specifically work in that area. These changes are described in Appendix F.

[8]Federal law requires accounting principles applicable to reports or statements required to be filed with the federal financial institution regulators by insured depository institutions and credit unions to be uniform and consistent with GAAP.

SMEs,[9] although thus far there do not appear to be many private companies that have chosen this option.

Because of the lack of relevance, and the complexity, surrounding some GAAP standards, notably accounting for variable interest entities (formerly FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, as recently amended by FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*), many private companies have opted to receive qualified or except-for opinions. Lender and CPA-practitioner members of the BRP have reported that they have seen an increase in the acceptance of such reports from private companies, mainly because application of some standards does not produce relevant information for lenders and is costly to prepare and audit, review, or compile. Some would respond that this is not necessarily a problem, as users of private company financial statements accept them. However, it does raise concerns about potentially reaching a point at which the frequency of exceptions undermines the very idea of "generally accepted." In addition, many loan covenants for larger private companies require GAAP financial statements and these companies typically do not have the option of taking exceptions or using OCBOA.

INDIVIDUAL BRP MEMBER PERSPECTIVES

At its first meeting, the BRP heard from its members who are users of private company financial statements. Users of private company financial statements primarily include lenders, other creditors, bonding and credit-rating agencies, regulators, and business owners. While the specific informational needs varied among users, they told the BRP that they liked the "gold standard" of GAAP, for consistency, comparability, and related assurance. According to these members, most users focus heavily on cash flow measures, adjust the financial statements to meet their end needs, and do not make decisions on the basis of the financial statements alone. Users almost always require additional information when making decisions to lend, invest, or bond, and many users have access to management to obtain that information. (This contrasts to the lack of direct access to management for certain users of public company financial statements under the SEC's Regulation FD.) These members stated that certain GAAP standards are complex, and that most companies, especially smaller ones, need outside CPA assistance to comply. They also noted that more recently, companies seem to be taking more exceptions to GAAP because certain information is not relevant. These users stated that while comparability is certainly important to them, they would not oppose differences in GAAP for private companies, perhaps even a separate standalone set of U.S. GAAP along the lines of IFRS for SMEs or Canadian GAAP for Private Enterprises, if that would spur more companies to move from OCBOA to GAAP financial statements. However, some BRP members observed that the call for change did not seem to be coming, in any widespread way, from the user community and that the users of private company financial statements are accustomed to adjusting financial statements to make the financial statements more useful for their end needs.

At the second meeting, preparers and practitioners agreed that there are broad-based concerns about the current standard-setting system. They stated that private company issues have not been

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[9] IFRS for SMEs specifically preclude all financial institutions, including those that are privately held, from using these standards.

heard or fully considered by the FASB, and that the FASB has not made sufficient exceptions or modifications for private companies in measurement and recognition, as well as disclosure. As a result, those preparers and practitioners indicated that standard setting seems to be driven to a large degree by public company financial statement user needs and often tends to be more relevant to some of the users in that sector (especially equity investors) than it does to many users in the private company sector.

At later meetings of the BRP, the word *relevance* was frequently used when speaking about accounting standards. Most BRP members agreed that too many GAAP requirements were not relevant to some users of private company financial statements and that the benefits of complying with certain standards did not justify the costs. The BRP noted that change would not be driven by private company financial statement users. Rather, the users would likely accept differences in GAAP for private companies, since some GAAP pronouncements are not useful or relevant to providing appropriate understanding or analysis of the entity's relative financial position.

FEEDBACK FROM PUBLIC SUBMISSIONS

The BRP published a set of questions on August 5, 2010, requesting written input from the public. Appendix G to this report contains the questions asked, a list of respondents, and a full summary of the responses received. Many CPA practitioners and preparers responded but few users submitted responses.

The common issues and concerns cited by respondents were:

- Private company financial statements often lack relevance to users.
- Standards have become increasingly complex.
- The pace of the standard-setting process has increased.
- Costs often exceed benefits.
- There has been an increase in qualified opinions and use of OCBOA where possible.

The general thrust of the written responses did not differ from the general thrust of comments made by most BRP members, with many respondents indicating that there were systemic issues with the standard-setting process. The largest firms, however, generally recommended attacking the issue of complexity through simplification efforts for all entities, both public and private, especially until the SEC makes a decision about whether to incorporate IFRS into the financial reporting system for public companies. While supporting one set of high-quality standards for all public and private companies in the United States, the Federal financial institution regulators[10] recognized that accounting standards need to address the circumstances and needs of all financial statements users, for both public and private companies. In their written response to the Panel, the regulators recommended that the standard setters include more small-firm and private company representation on a single board and incorporate practical expedients, wherever

[10]The U.S. federal financial institution regulatory agencies as a group is a participating observer on the Panel, but is not a member of the Panel.

possible, that would allow the standards to be implemented by all companies in a cost-effective manner.

THE INTERNATIONAL EXPERIENCE

The Panel consulted standard setters outside the United States to learn what is being done for private companies as their public companies adopt IFRS. Most standard setters have come to believe that one size does not fit all when it comes to accounting standards and that there needs to be significant differences for private company reporting:

- A number of countries around the world have adopted IFRS for SMEs. Most of these countries have universal or widespread statutory reporting requirements for all companies, public and private, which in part drove the initiative for the SME project.
- The U.K. is planning to adopt IFRS for SMEs for use by its private companies and, for now, to continue to allow very small private companies to use its Financial Reporting Standard for Smaller Entities (FRSSE) standards.
- Canada has taken a “made in Canada” approach by simplifying existing Canadian GAAP and creating a standalone set of accounting standards for private enterprises. It has an advisory board to the Canadian Accounting Standards Board, which will propose updates and changes, but the ultimate authority to change accounting standards for private enterprises remains with the Canadian Accounting Standards Board. Going forward, changes to IFRSs will be examined to determine whether similar changes should also be made to the accounting standards for private enterprises. This does not mean that the private enterprise standards are on a path to converge with IFRSs for SMEs. The private enterprise standards are a long-term solution focused on the needs of the private enterprise marketplace and will exist as long as the marketplace finds them useful.

BRP CONCLUSIONS

After considering prior studies, the PCFRC’s experience, trends in the marketplace, the perspectives of BRP members, the public written submissions, and the experience of international standard setters, the BRP believes that significant change is needed in the system of setting accounting standards for private companies to address the issues underlying the lack of relevance of a number of GAAP standards for many users of private company GAAP financial statements and the complexity of GAAP for private companies. Some of the BRP members acknowledge that some of the complexity concerns extend to public companies and that some of the relevance concerns extend to some users of public company GAAP financial statements; however, the BRP’s focus is on providing recommendations that are within its purview—the accounting standard-setting system as it pertains to private companies. The BRP believes that the recommendations in Sections II and V are in the best interest of users of private company financial statements and will sufficiently address the systemic issues in a cost-effective manner.

IV. WHY THE BRP'S RECOMMENDATIONS BEST ADDRESS THE PROBLEMS

To develop its best recommendations for addressing the systemic issues described in Section III, the BRP considered various models and structures as alternatives to the current standard-setting process. The individual models and structures contemplated what would be in the best interests of the private company sector in the United States, that is, the process and product that would best facilitate financial reporting to meet the needs of users of private company financial statements in a manner that is cost-effective for private company preparers, practitioners, users, and others in the financial system. The models and structures, which are further detailed in Appendix H, describe an end-state process, taking into account that there might be certain short-term and long-term actions that would need to occur to achieve a particular model or structure.

This section provides a brief overview of the models and the structures considered and explains why a U.S. GAAP model with exceptions and modifications for private companies and a separate private company standard-setting board are the best recommendations to address the problems noted in Section III of the report.

OVERVIEW OF MODELS AND STRUCTURES

The BRP initially debated the following models:

<u>U.S. GAAP Models</u>

- **U.S. GAAP with Exceptions and Modifications for Private Companies—current system**
- **U.S. GAAP with Exceptions and Modifications for Private Companies—with process enhancements**
- **Baseline U.S. GAAP with Add-ons for Public Companies**
- **Separate, Standalone U.S. GAAP for Private Companies Derived from Current U.S. GAAP (the "Canadian" Approach)**
- **Separate, Standalone U.S. GAAP for Private Companies Developed from the Ground up Based on Robust Private Company Framework**

<u>IFRS Models</u>

- **IFRS for SMEs as Issued by the IASB**
- **IFRS for SMEs Customized ("Americanized") for U.S. Private Companies**

These models were viewed as two continua, one based on U.S. GAAP and another based on IFRS. Within each continuum, the change necessary to achieve such models gradually increased with respect to current standards and the standard-setting system. In all the U.S. GAAP-based models except the current system model, the creation of some sort of underlying, standard-setting framework for private companies was viewed as a near-term necessity. The private company framework in the respective models ranged from a differential framework to a separate, ground-up framework. The IFRS-based models already have an underlying set of decision criteria ("Concepts and Pervasive Principles") created by the IASB.

The Panel rejected four of the models during its initial deliberations:

- U.S. GAAP with Exceptions and Modifications for Private Companies—current system
- Separate, Standalone GAAP for Private Companies Developed from the Ground up Based on Robust Private Company Framework
- IFRS for SMEs as Issued by the IASB
- IFRS for SMEs Customized ("Americanized") for U.S. Private Companies.

In general, these models were rejected because that BRP felt that:

- The status quo is unacceptable.
- Separate, standalone GAAP created from the ground up could take a significant amount of time to create and could be significantly different from current U.S. GAAP.
- U.S. private companies should not be leading the charge, *en masse,* to an IFRS-based set of standards before the SEC makes a decision on U.S. public companies, especially given the extent of change management efforts that private company stakeholders might have to undertake.

The remaining three models were refined for further deliberations. Two of the models contemplated two structural variations, one featuring a restructured FASB and the other featuring a separate private company board. Because of the nature of the baseline model, only a version with a single standard-setting board for both public and private companies (a restructured FASB) is feasible and was considered.[11]

The baseline U.S. GAAP with add-ons for public companies and the separate, standalone GAAP for private companies derived from current U.S. GAAP were not supported by the majority of the BRP members. However, most members believed a baseline or a separate private company GAAP (based on current U.S. GAAP) could be in the best, long-term interest of users of U.S. private companies' financial statements within the broader context of the overall U.S. financial reporting system. Under a baseline GAAP model, the "burden of proof" would shift more to justifying why users of public company financial statements need certain information, rather than why users of private company financial statements do not. And a separate private company GAAP could permit a more exclusive focus on the needs of users of private company financial statements, more than would other models.

There was an overriding concern among BRP members that a baseline GAAP model or a separate private company GAAP model would likely take much longer and be more costly to implement than a GAAP model with exceptions and modifications, with enhancements to the current system. As such, the BRP rejected these models because of expediency. Many users on the BRP also support a GAAP model with exceptions and modifications, with enhancements to the current system, for reasons of consistency and comparability.

[11]Baseline GAAP with add-ons for public companies contemplates reviewing and reorganizing current (existing) U.S. GAAP into a baseline GAAP for all entities, based on user needs, and with additional GAAP requirements ("add-ons") for public companies. Having two boards sharing responsibility for determining that baseline was not considered practicable.

PRIMARY REASONS FOR THE BRP RECOMMENDATIONS

As noted above, many of the models had attributes that were attractive to BRP members, but the overriding factors that led the BRP to choose the recommended model from others are a sense of urgency and the support by many users for financial statement comparability. A U.S. GAAP model with exceptions and modifications for private companies affords the best opportunity to implement change quickly and, with proper coordination between the boards, affords relatively less opportunity for unintended divergence to a separate, standalone GAAP, which could result in less comparability and confusion in the marketplace.

Change Needs to Be Made Quickly

As noted above, some models were appealing as long-term solutions, but the BRP believes that those models could not be achieved quickly enough to provide relief to private companies in the near term. For example, some BRP members noted that a model with a baseline GAAP for all companies and additional requirements ("add-ons") for public companies would be their ideal solution but that the time to develop such a model would be significant and would not provide near-term relief. That model would require an analysis of all GAAP requirements, possibly with significant involvement by the SEC. Such a task would be difficult at best and might have been more appropriate years ago.

Another model that had some appeal to BRP members but that was rejected to achieve a near-term solution was the creation of a separate set of U.S. GAAP for private companies. That solution was viewed by some BRP members as a long-term goal, but it would require much more time to develop because it would involve a similar analysis of all GAAP requirements as would be required to create the baseline GAAP portion of the baseline-with-add-ons model described in the preceding paragraph (though it would probably not necessitate significant SEC involvement).

Those BRP members who perceived other models as potential long-term solutions believe that U.S. GAAP with exceptions and modifications could be a stepping stone or bridge to those ends. They note that the recommended model does not close off the possibility of a strategic shift by the FAF and the standard setter(s) to one of these other models if it is determined, sometime in the future, to be in the best interest of users of private company financial statements and other stakeholders in the U.S. financial reporting system.

Comparability

BRP members that are primarily financial statement users indicated that comparability is an important attribute for them. A GAAP model with exceptions and modifications for private companies would be based on a single foundation or set of core principles. If GAAP for private companies were a separate document created independently from GAAP for public companies, it could result in two GAAPs that might diverge more dramatically than would be desirable, resulting in less comparability and potentially more confusion in the marketplace.

New Board

The supermajority view of BRP members is that the current FASB and even a restructured FASB cannot produce the needed exceptions and modifications to GAAP for private company financial reporting. Those BRP members believe that throughout its history, the FASB has been geared, in its composition and its processes, very heavily toward public companies, with exceptions and modifications in GAAP for private companies too rare and extremely difficult to achieve, especially in areas other than disclosure—that is recognition, measurement, and presentation. Members of a board with authority to set accounting standards for private companies must possess the perspective of those stakeholders, and the FASB cannot be sufficiently restructured or possess enough of the essential private company representation needed to set GAAP for private companies. A new board is the most realistic path forward in overcoming the systemic issue related to the relevance of GAAP for private companies.

PROS AND CONS CONSIDERED FOR THE BRP RECOMMENDATIONS

The BRP considered the following pros and cons in its deliberations to arrive at the recommended model and structure:

Pros:

A GAAP-with-exceptions-and-modifications model:

- Can be achieved more quickly than some of the other models considered
- Maintains a significant degree of consistency and comparability between public and private companies compared with other models considered
- Minimizes the costs to private companies that choose to "go public" compared with other models considered
- Avoids confusion and system complexity from two highly divergent sets of U.S. GAAP
- Has lower education and training costs than other models considered.

A separate private company board:

- Could provide appropriate structural separation from the pressures that the FASB faces in addressing the needs of public company stakeholders, including the SEC
- Could better address the different needs of private company financial statement users given a targeted focus on one constituency.

Cons:

- A GAAP-with-exceptions-and-modifications model might not be perceived as being sufficiently responsive to complexity and cost issues for private companies (compared with, for example, a separate, self-contained set of private company standards).
- Since the pace of standard setting is often driven (or perceived to be driven) by SEC/ public company sector needs or concerns, a GAAP-with-exceptions-and-modifications model probably affords less opportunity for the standard setter to keep the pace of standard-setting activities to a level that facilitates participation by the private company

sector (which generally has fewer resources) in the standard setter's due process compared with other models considered.

- Depending on the extent of exceptions and modifications made by the new board, the result could be substantially different accounting standards for private companies resulting in a lack of comparability, and additional costs and strain to some in the U.S. financial reporting chain. Once a separate board is given authority over private company standard setting, there may be limited ability to stop any such divergence.
- Two boards having authoritative responsibility for an overall, single-GAAP model is unproven and has not been used in other countries.
- It could make engagement in due process inefficient and even confusing for stakeholders that are interested in both public and private companies, and it could possibly undermine the authority of one or both boards.
- Additional funding sources will be required.

The BRP considered the various pros and cons and placed more weight on some factors than on others. The general consensus was that although some models had appeal in the long term, the recommended model has the advantage of achieving needed relief in the near term without adding significant complexity or comparability complications. The BRP also believed that, with a clear mission for the new board, proper coordination of the board with the FASB, and appropriate oversight of the board by the FAF, at least some of the cons would be mitigated.

CONCLUSION ON BRP RECOMMENDED MODEL AND STRUCTURE

In light of the frustrations expressed about the lack of relevance of some GAAP standards and the complexity and rapid pace of change in GAAP by many private company preparers and CPA practitioners in the written public submissions and elsewhere, and because of the length of time needed to achieve the various end-state models, the BRP recommends the U.S. GAAP model with exceptions and modifications for private companies, set by a separate private company board. The BRP believes that this model and structure would be the most effective approach to improve relevance of standards and to get relief for private company stakeholders in the near term. The BRP acknowledges that a two-board structure has risks (as noted above) but firmly believes that through proper coordination and effective two-way communication, the two boards will be able to set appropriate standards that best meet the needs of users of private company GAAP financial statements in a cost-effective manner.

The BRP also recognizes that the FAF or the new board could consider a succession (evolution) of models, such as described on page 15, as a longer-term solution.

V. ADDITIONAL BRP RECOMMENDATIONS: SHORT-TERM, TRANSITIONAL, AND OTHER

Short-term and Transitional Actions by the FASB and the FAF

While the BRP firmly believes that significant change is urgently needed and encourages the FAF to take prompt action to implement the Panel's recommendations on model and structure, the Panel recognizes that the Trustees will need time to vet the recommendations, especially concerning the creation of a new board, both internally and publicly, and, if the Trustees concur, to then put a new board into place. In light of this, the BRP recommends that the FAF and the FASB take, or in some cases continue to take, certain actions that can be implemented in the short term or can be transitional actions to achieve needed near-term relief for private companies and help ensure a successful transition to the model and structure that the Panel recommends. The BRP believes that these actions, in whole or in part, do not change its recommendations for fundamental changes or the urgency needed to enact them.

Those recommendations are:

1. The FAF should fill at least one of the currently open board positions with individuals who have primarily private company background and experience.[12]
2. The FASB should continue to work closely with the PCFRC or another similar dedicated work stream. It should continue to have one or more board members present at each PCFRC meeting. PCFRC recommendations on Exposure Drafts and other matters should be discussed specifically at open FASB Board meetings.
3. In the short term and continuing as transitional actions until a new board is in place, the FASB should perform the following:
    - Continue to hold separate private company roundtables for major projects at locations around the country.
    - Incorporate private company concerns expressed at roundtables and in comment letters in the ongoing projects to evaluate whether there should be differences in recognition, measurement, presentation, disclosures, and/or effective dates. In view of publicly expressed concerns, if the board decides that there should be no differences, a clear explanation of their reasoning should be included in the basis for conclusions section of the final standards.
    - Consider a delay for private companies in the effective date of major new standards, especially those issued in connection with the FASB-IASB Memorandum of Understanding (MOU) projects, that is longer than the now-routine one-year delay.[13]

    These processes described above will most likely continue once the new board is in place but will be led by and/or significantly involve the new board.
4. The BRP recommended that differences in GAAP for private companies be based on a framework (set of decision criteria). Using what it has learned from the two recent roundtables on private company issues with existing GAAP standards as key input, the FASB should begin to articulate "what differentiates private companies from public companies." This articulation would be used to create the differential framework for private company accounting. The framework would be used to determine whether differences for private companies should be approved.

[12]The BRP acknowledges that on January 14, 2011, the FAF announced the appointments of two new FASB members, one of which has substantial experience as a private company CFO and the other of which has substantial experience as a user of financial statements, including financial statements of private companies.

[13]The delay would be with respect to the public company effective date. Thus, if, for example, the effective date for a particular MOU project is 2014 for public companies, this recommendation would contemplate an effective date of 2016 or later, rather than 2015, for private companies.

The FASB Board and staff could do much of this work, perhaps with the assistance of an appropriate, broad resource group, even before a decision by the Trustees on a desired model and board structure is finalized. The broad resource group should include significant user representation.

If and when a new board is established, it could then complete this work or, if already completed, could review it and either ratify it or revise it.

5. The FASB should look at the public comment process in its standard setting and consider taking steps to make it simpler to encourage responses by a broad base of stakeholders.

FAF and FASAC Structure

The BRP also believes that it is important that the FAF reassess the composition of its Board of Trustees to see that it has an appropriate number of members from the private company sector, including small and mid-sized private companies, to ensure its ability to reach out to and consider the needs of private companies in its oversight of the FASB and, if approved, a new private company standard-setting board.

In order for the FASB to consider private company needs in the standard-setting process, the FAF should reassess the composition of the FASB's primary advisory body, the Financial Accounting Standards Advisory Council (FASAC), to ensure that it has an appropriate number of members from the private company sector, including small and mid-sized private companies, to ensure its ability to consider the needs of the private company sector when providing strategic and other input to the FASB.

Marketplace Solution

In addition to its primary recommendations on private company accounting standards, BRP members generally believed that allowing the marketplace to effectively and efficiently function and allowing choices for private companies would prove to be a successful course for standard setting to follow. If GAAP with exceptions and modifications for private companies were developed, the choice of which version of GAAP a private company would apply—the set of standards under the new board's authority ("private company GAAP") or the set of standards under the FASB's authority ("FASB GAAP")—should be market driven, rather than set by the standard setters themselves.[14] If the users of a private company's financial statements demanded adherence to FASB GAAP, that would be a cost-benefit decision that the company would have to make in consultation with the users of its financial information. Some regulated private companies (such as privately-held financial institutions) could be required, by statute or otherwise, to adhere to FASB GAAP in order to comply with specific industry requirements. Regardless of these situations, the standard setter would not be the decision maker; rather, the decision of which GAAP a private company (if not subject to regulatory requirements) should

[14]For example, both IFRS for SMEs and Canadian GAAP for Private Enterprises specifically preclude all financial institutions, including those that are privately held, from using those standards.

use would be in the hands of the company and its financial statement users. The BRP believes there should be a market-driven choice as to whether a private company would follow GAAP as set by the FASB or private company GAAP.

VI. ALTERNATIVE VIEWS

Dissenting View

One BRP member dissents from the BRP's recommendations for differential standards for private companies and a separate private company standard-setting board. This member's dissent may be found following Section VII.

Minority View

A small minority of BRP members, while generally agreeing with the other recommendations contained in this report, believe that the FAF should not create a new board but instead:

- Allow sufficient time to determine whether the recent changes in the FASB staffing and processes (see Appendix F) have improved the systemic issues of relevance, complexity, and the cost of certain standards
- Restructure the Board, and its processes, as necessary to help ensure that it produces accounting standards that meet the needs of users of private company financial statements in a manner that is cost-effective for both users and preparers
- Implement the actions described in Section V to achieve the best possible outcome for private companies.

These members believe that a decision to create a separate board is premature at this time because of the number of changes the FASB is currently implementing and the uncertainties about the future role of the FASB concerning public companies. These members feel that the FAF in its oversight role, including its post-implementation reviews, should hold the FASB fully accountable for standard-setting activities that achieve an appropriate cost-benefit balance for private companies, minimizing irrelevant information for users of private company GAAP financial statements and reducing the complexity of GAAP where appropriate for private companies, and likely for public companies as well. (Indeed, these members believe that the BRP's recommendation concerning a separate board may well have been different if the concerns of both public company stakeholders and private company stakeholders had been considered by the BRP as being under its purview.)

These BRP members also recommend that the FAF examine the FASB's composition and adjust as necessary to ensure that the Board includes members with sufficient private company experience and perspective to appropriately consider private companies in the standard-setting process. These BRP members recommend that the FAF explore the following restructured FASB Board scenarios as alternatives to a new board:

- As the FAF has already announced, increase the FASB board size to seven members from the current five and ensure that at least one member has primarily a private company background.[15] Or, the FAF could further expand the FASB and increase the proportion of members with primarily private company backgrounds.
- Regardless of changes to the FASB Board, create an advisory task force structure (work stream) with the ability to effectively consider and determine exceptions and modifications in GAAP for private companies. In this scenario, the structure's decisions are subject to FASB Board ratification. This approach is akin to the way the FASB Board ratifies decisions of its Emerging Issues Task Force.

These BRP members believe that a single board, coupled with the enhancements noted in Section V of this report, provides the best opportunity for improving the standard-setting process for all companies. A single group of individuals that collectively has broader experience and perspective regarding private as well as public companies, along with the help of an advisory task force structure that can supplement the board composition and bring the needed focus and perspective for the private company constituency, will overcome the systemic issues in standard setting. These BRP members also feel that a single board lessens the risk of unintentionally diverging to a separate set of private company GAAP standards.

VII. BRP CONCLUDING COMMENTS

The BRP has spent a considerable amount of time developing recommendations that we believe will help address how accounting standards can best meet the needs of users of U.S. private company financial statements. We are pleased to be able to present our report to the FAF and hope that our conclusions and recommendations will be helpful to the FAF Trustees as they strategically address the standard-setting system for private companies.

We believe that significant improvements to the system are urgently needed, and we stand ready to assist in any way that we can to help ensure expeditious, beneficial change.

[15] The BRP acknowledges that on January 14, 2011, the FAF announced the appointments of two new FASB members, one of which has substantial experience as a private company CFO and the other of which has substantial experience as a user of financial statements, including financial statements of private companies.

DISSENTING VIEW

Teri Lombardi Yohn dissents from the recommendations of the Blue Ribbon Panel on Private Company Financial Reporting suggesting the establishment of differential standards for private companies and a separate private company standard-setting board. According to the FASB's Conceptual Framework, the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. In addition, financial reporting should provide information to help users assess the amount, timing, and uncertainty of future cash flows as a result of providing resources to the entity.

In the view of Ms. Yohn, there has been no compelling evidence presented to the Panel to suggest that the objectives of financial reporting are not being met for private companies. An argument presented to the Panel in support of differential standards is that users of private company financial statements are more likely to be lenders than equity holders and that U.S. GAAP focuses on information needs of equity investors. However, financial statements presented under U.S. GAAP are intended to provide decision-useful information for external users in general, and the Panel has not been presented with arguments or evidence that private company financial statements do not meet the needs of users. In fact, the push for differential standards has not been driven by users of private company financial statements, suggesting that the financial statements are providing decision-useful information.

There has also been no compelling evidence or framework presented to the Panel to suggest that the objectives of financial reporting differ between private companies and public companies. The Panel has merely been presented with a list of standards that accountants associated with private companies do not find desirable. The specific standards that have been highlighted are those related to fair value, uncertain tax positions, variable interest entities, and financial instruments. Public companies have similar concerns about the same standards. This suggests that perhaps these standards need to be reviewed to determine if they meet the objective of financial reporting. If the concerns over these standards are valid, then the standards should be improved for both private companies and public companies.

Proponents of differential standards for private companies suggest that some of the standards under U.S. GAAP are not relevant and/or are not cost beneficial for private companies and, therefore, that all private companies should be exempt from these standards. There is potentially a basis for differentiation of financial reporting for different classes of entities; however, the Panel has not been presented with evidence suggesting that there are sufficient similarities among private companies to warrant general exemptions. In addition, the Panel has not been presented with evidence to suggest that there are sufficient differences between private companies and public companies to warrant different standards for private companies. For example, there has been no analysis presented to the Panel suggesting that the differences for private versus public companies are any more significant than differences across other classes of companies, such as industry membership. The relevance of a standard should be judged on the basis of whether it meets the objectives of financial reporting. Without evidence that the financial reporting objectives differ between private companies and public companies, there is no basis to conclude that the relevance of standards differs across private and public companies.

There have been concerns presented to the Panel about the complexity of the standards under U.S. GAAP. However, the complexities in U.S. GAAP arise from an attempt to best capture the economics of the business and its transactions. By applying more simplified standards, the economics of the transaction are not likely to be captured in the same meaningful manner. If the economics could be captured more simply, then the standards for public and private companies should be modified to do so.

Proponents of differential standards for private companies focus on the costs and benefits of applying standards from the company's perspective. The proponents have considered only the cost of providing financial information and having the information audited. This is a narrow view of the costs and benefits associated with financial reporting. It is important to note that not providing relevant information to financial statement users can also be costly. In addition, establishing separate standards for private companies will add significant complexity and cost to other dimensions of financial reporting. For example, differential accounting standards will make it more costly for users to understand, standards setters to develop and maintain, educators to teach, and assurance providers to obtain proficiency in financial reporting.

Establishing differential standards for private companies will also reduce the comparability of financial statements. It is widely accepted that comparability of financial statements between entities, and over time for a given entity, enhances the decision usefulness of the information. The FASB's Conceptual Framework suggests that comparability is the principal reason for the development of accounting standards. Allowing for differential standards for private companies will reduce comparability across public and private companies. In addition, given that private companies would be allowed to follow either U.S. GAAP or private company standards, the comparability of financial reporting will be diminished even across private companies supplying audited financial statements.

Proponents of differential standards for private companies raise a concern over the number of qualified opinions that have been issued for private companies. However, given that there is no regulatory requirement to file audited financial statements for most private companies, these companies can choose to not prepare financial statements under U.S. GAAP if it is not beneficial. If a company chooses to apply U.S. GAAP, then the company should recognize that U.S. GAAP was established to best capture the economic position and profitability of a company. This is the "gold standard." There is no reason to modify the standards so that companies can get unqualified opinions. This is like writing an exam so that every student gets 100 percent. Just as formulating exams so that everyone would obtain a perfect score would make a mockery of exams, writing standards so that all companies get unqualified opinions would make a mockery of the standards. It is much better for a company to be held to the gold standard and have audit qualifications that explicitly state the standards that the company chose not to apply. This is more informative and transparent than having a differential set of standards with general exemptions. If private companies do significantly differ from public companies in terms of cost-benefit analyses of specific standards, then perhaps these concerns should be addressed through modifying the auditing standards and/or types of qualifications issued rather than through establishing a separate set of standards.

In summary, the Panel has not been presented with compelling evidence that the financial reporting objectives for private companies are significantly different from the objectives for public companies. The Panel has also not been provided with guiding principles or compelling evidence to elicit how the financial reporting needs of users of private company financial statements differ from those of public company financial statements. The Panel has merely been presented with opinions as to what standards are preferred by accounting practitioners associated with private companies. Differential accounting standards for private companies will add significant complexity and cost to financial reporting. Given these costs, it is the responsibility of proponents of differential standards to articulate underlying principles and to provide compelling evidence to suggest that such a change is warranted.

For these reasons, Teri Yohn has concluded that, absent supporting evidence, there should be one set of U.S. GAAP standards and one standard-setting board. She thinks that changes could be made to the structure of the FASB and the supporting staff to better incorporate the views of private companies into the standard-setting process. Given the arguments and evidence presented to the Panel, Teri Yohn sees no basis to support the establishment of differential standards or a separate standard-setting board for private companies.

APPENDIX A

About the Blue-Ribbon Panel (BRP)—Mission, List of Members, Participating Observers, and Staff

I. Blue-Ribbon Panel Overview

As mentioned in the report's Executive Summary, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Foundation (FAF, the parent organization of the Financial Accounting Standards Board (FASB)), and the National Association of State Boards of Accountancy (NASBA) established a "blue-ribbon" panel (the Panel or BRP) to address how accounting standards can best meet the needs of users of U.S. private company financial statements.

II. History

Three key factors led to the formation of the BRP:

- Summer 2009 FAF Listening Tour
- Fall 2009 AICPA Council meeting
- Fall 2009 Private Company Financial Reporting Committee (PCFRC) Letter to the FAF

Summer 2009 FAF Listening Tour

After John J. Brennan became Chairman of the FAF, he, other FAF Trustees, and FAF staff embarked upon a "listening tour" in various cities around the country in the summer of 2009 as part of the FAF's strategic planning process. The team heard from all key stakeholder groups of the FASB. One of the primary lessons learned from this tour was the need for the FASB to improve its consideration of private companies' views during the standard-setting process.

Fall 2009 AICPA Council Meeting

At its 2009 Fall Council meeting, the AICPA's governing council discussed the current state of standard setting for private companies. More than 95% of Council members at that meeting supported differences in the GAAP applied by U.S. private companies, where appropriate, from GAAP applied by U.S. public companies (most of them strongly supporting such differences). Additionally, more than 90% said the idea of having a self-contained, standalone GAAP for U.S. private companies is worthy of major exploration.

November 2009 PCFRC Letter to the FAF

In November 2009, the PCFRC wrote a letter to the FAF recommending that it strategically consider the issue of U.S. private company accounting in the context of both the mission of the FASB and global developments, such as the creation of International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) and Canadian GAAP for Private Enterprises. In its letter, the PCFRC indicated that its preferred approach was a separate, self-contained set of standards for U.S. private companies tailored to the needs of statement users, though the FAF should explore other alternatives as well.

III. Composition and Outreach

The Panel is chaired by Rick Anderson, Chairman and CEO of Moss Adams, LLP, and FAF Trustee,[16] and comprises 18 members. Panel Members are senior leaders who represent a cross-section of financial reporting constituencies, including lenders, investors, and owners, as well as preparers and auditors. All members have both extensive experience in their field and a keen and broad interest in financial reporting for private companies. In addition to the Panel members, the Panel has invited certain regulators and other key stakeholders to serve as participating observers for all of the Panel's work (see below for list of members, participating observers, and staff). The Panel also invited other guests to specific meetings for their expertise and perspective, and it solicited written submissions from the public on a series of questions on private company financial reporting.

[16]Mr. Anderson's term as an FAF Trustee ended as of December 31, 2010, due to term limits.

PANEL MEMBERS:

CHAIR:

Rick Anderson, Chairman and CEO, Moss Adams, LLP

MEMBERS:

Billy Atkinson, Board Chair, NASBA

Daryl Buck,[17] Senior Vice President and CFO, Reasor's Holding Company, Inc.

Steve Feilmeier, Chief Financial Officer, Koch Industries

Hubert Glover, President and Co-founder, REDE, Inc.

David Hirschmann, President and CEO, Center for Capital Markets Competitiveness, U.S. Chamber of Commerce

William Knese, Vice President, Finance and Administration, Angus Industries

Kewsong Lee, Managing Director, Warburg Pincus

Paul Limbert, President and CEO, WesBanco, Inc.

Krista McMasters, CEO, Clifton Gunderson

Barry Melancon, President and CEO, AICPA

Jason Mendelson, Managing Director and Co-Founder, Foundry Group

Michael Menzies, President and CEO, Easton Bank and Trust Company

David Morgan, Co-Managing Partner, Lattimore, Black, Morgan, and Cain, PC.

Terri Polley,[18] President and CEO, FAF

Dev Strischek, Senior Vice President and Senior Credit Policy Officer, Corporate Risk Management, SunTrust Banks, Inc.

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[17]The BRP acknowledges that on January 14, 2011, the FAF announced the appointment of Daryl Buck to the FASB for a term beginning February 28, 2011. In light of this announcement, Mr. Buck resigned as a member of the Blue-Ribbon Panel on January 17, 2011, and did not participate in the final vote.
[18]Non-voting member.

PANEL MEMBERS: (continued)

Mark Vonnahme, Professor, University of Illinois; former Executive Vice President, Surety, Arch Insurance Group

Teri Yohn, Associate Professor, Indiana University

PARTICIPATING OBSERVERS:

Karen Kelbly, U.S. Federal Financial Institution Regulatory Agencies Group

Dan Daveline, National Association of Insurance Commissioners

Dillon Taylor, U.S. Small Business Administration

Judith O'Dell, Chair, FASB Private Company Financial Reporting Committee

Mark Ellis, Member and Agenda Subcommittee chair, FASB Small Business Advisory Committee

Russ Golden, Board member, FASB; former Technical Director, FASB

STAFF:

Jeffrey Mechanick, FAF/ FASB

Meredith Vogel, Grant Thornton LLP

Robert Durak, AICPA

Paul Glotzer, FAF/ FASB

Daniel Noll, AICPA

APPENDIX B

BRP Process—Agendas, Outreach, and Invited Guests

To accomplish its mission, the Panel held five in-person meetings, during which it considered:

- Previous studies and other reports on standard setting for U.S. private companies (see Appendix D)
- The current standard-setting system from the perspective of the various members, participating observers, invited guests, and the public (through a summary of the written submissions; see Appendix G)
- Efforts of global and other national standard setters concerning private companies
- Various alternatives to the current system, in terms of processes (models) and structures, including short- and longer-term actions that may be necessary for putting into place any desired alternatives (see Appendix H).

As part of its process, the Panel invited other guests to its meetings for their expertise and perspective on topics relevant to the Panel's work and conducted an outreach effort to private company stakeholders.

I. Meetings Agendas and Minutes

Meeting 1 – April 12, 2010 (New York, NY)

The agenda for the Panel's first meeting included a general overview session, including a history of the debate on private company standards within the U.S. financial reporting system and a brief overview of actions taking place in other countries on private company financial reporting. Panel members reviewed and discussed the current U.S. standard-setting process (see Appendix E) and previous studies and reports, especially the 2005 Private Company Financial Reporting Task Force Report ("Castellano Report") (see Appendix D).

To better understand the views of and issues facing private company financial statement users, Panel members and participating observers representing a user perspective delivered prepared remarks to the Panel. The Panel discussed the following questions:

- Who are the actual users of private company financial statements?
- What is the key, decision-useful information that the various users need from GAAP financial statements? Is there information users don't need or can't get?
- Are current U.S. GAAP financial statements meeting those needs? Why or why not?
- Do users routinely "adjust" the GAAP financial statements to meet their needs?
- Are users concerned about the cost-benefit issues of preparing GAAP financial statements?

Meeting 2 – May 14, 2010 (Norwalk, CT)

The Panel continued its discussion about private company financial statement user needs and continued to hear testimony from those users, including a corporate director and a credit analyst. Panel members then heard the viewpoints of private company financial statement preparers and practitioners. Panel member preparers and practitioners delivered prepared remarks, and Panel members heard testimony from a "Big Four" practitioner. The Panel considered whether US GAAP is meeting private company user needs in a cost-effective manner for both users and preparers.

The Panel then looked at alternative private company financial reporting standard-setting processes in other countries in some detail. After receiving an overview of standard setting in other countries and regions, the Panel listened to a presentation about Canadian GAAP for Private Enterprises, a proposed standard-setting system for private companies in the United Kingdom, and a presentation about IFRS for Small and Medium-sized Entities. Afterwards, Panel members considered the following questions:

- How does standard setting for private companies in the U.S. compare to standard setting in other countries, both those that have adopted IFRS for Small and Medium-sized Entities and those that have not?
- To the extent that current U.S. GAAP is not meeting user needs in a cost-effective manner, what can the Panel learn from the alternatives seen in other countries?

Meeting 3 – July 19, 2010 (Chicago, IL)

After some additional discussion about the nature of the problems in the standard-setting system with respect to private companies, the Panel considered alternative models and structures for private company standard setting (see Appendix H). Panel members expressed their views on which alternative(s) was preferable and why, on whether there were any new or different alternatives not identified by staff, and on what structural changes, if any, would be needed to achieve the preferred model(s) and why.

The Panel also held a discussion about overarching issues surrounding the models and considered whether there should be scope limitations regarding the Panel's recommendations, specifically:

- Should private companies with some form of public accountability or over a certain size be excluded?
- Alternatively, should this be left up to the U.S. marketplace, that is, to users and possibly regulators?

Meeting 4 – October 8, 2010 (New York, NY)

The fourth meeting began with Panel members learning about recent changes at the FASB (see Appendix F). After that, the Panel reviewed and discussed a summary of written submissions received from the public in response to the Panel's outreach (see Appendix G).

The Panel then continued its discussion of alternative models and structures, while considering the following questions:

- Generally, which model is preferable in the long run and why?
- Given the amount of time required to achieve that model, are there other models (or aspects of other models) that should be considered as intermediate steps and why?
- What short-term and/or long-term structural changes are necessary to achieve the preferred model (or combination or sequence of models) and why?

After considering those questions, the Panel worked on reaching a consensus about which model and structure to recommend to the FAF.

Meeting 5 – December 10, 2010 (Norwalk, CT)

At its last meeting, the Panel worked on finalizing the details of its recommendations to the FAF, including a discussion about the new private company standards board's mission, role, structure, composition, protocols, budget, and funding.

The Panel also discussed:

- What other short-term and/or long-term actions may need to be taken by the FAF, FASB, or both?
- Are there any other recommendations that should be discussed by the Panel?

For further information, refer to the Panel Meeting Minutes webpage on the FAF's website.

II. Guests Invited to Panel Meetings

Meeting 1

- Paul Beswick (Deputy Chief Accountant for Professional Practice in U.S. Securities and Exchange Commission Office of the Chief Accountant)
- Jim Castellano (RubinBrown)

Meeting 2

- Keith Alm (National Association of Corporate Directors)
- Greg Edwards (Accounting Standards Board, Canada)
- Tom Jones (former Vice Chairman, International Accounting Standards Board)
- Joyce Joseph (Standard and Poor's)
- Ian Mackintosh (Chairman, UK Accounting Standards Board)
- Tricia O'Malley (Chairman, Accounting Standards Board, Canada)
- Joel Osnoss (Deloitte & Touche LLP)
- William Schramm (PricewaterhouseCoopers LLP)

Meeting 3

- Paul Beswick (Deputy Chief Accountant for Professional Practice in U.S. Securities and Exchange Commission Office of the Chief Accountant)
- John Perrell (Trustee, FAF)

Meeting 4

- Douglas Donahue (Trustee, FAF)
- John Perrell (Trustee, FAF)
- Leslie Seidman (Chairman, FASB)

Meeting 5

- Jeff Diermeier (Trustee, FAF)
- John Perrell (Trustee, FAF)
- Leslie Seidman (Chairman, FASB)

APPENDIX C

Recommended New Board Structure and Operating Protocol Chart

Function	Recommendation	Alternatives Considered	BRP Commentary
New board mission	The mission of the new board is to establish exceptions and modifications to GAAP for private companies, while ensuring that such exceptions and modifications provide decision-useful information to lenders and other users of private company financial reports. That mission is accomplished through a comprehensive and independent process that encourages broad participation, objectively considers all private company stakeholder views, and is subject to oversight by the Financial Accounting Foundation's Board of Trustees.		Wording is consistent with FASB's mission, but tailored to the specifics of this board.
New board model and how it works with the FASB	New board has authority to modify existing and future GAAP for private companies, where appropriate. FASB board considers input from all companies (including private companies) during the standard-setting process. 1. The goal is the FASB should try to produce the best possible standard for all entities (public companies, private companies, not-for-profit entities). 2. The new board has the responsibility for outreach to private company stakeholders, and it provides input to the FASB Board along the way so that the FASB can produce the best possible standards for all companies (both public and private companies).		To some degree the new board and FASB will be best positioned to decide how to operationalize the promulgation of modifications and exceptions, depending on the facts and circumstances of a standard-setting topic.

Function	Recommendation	Alternatives Considered	BRP Commentary
	3. Nothing precludes the FASB on a current agenda project from receiving input directly from private company stakeholders, but the specific responsibility for seeking such input resides with the new board, which then shares the results of such outreach with the FASB. 4. The new board reviews the product of the FASB and effectively endorses it or proposes modifications/ exceptions through its own due process. 5. The new board takes formal due process actions when it believes modifications/ exceptions are warranted beyond what the FASB has promulgated; otherwise, FASB output is accepted through non-action. 6. The new board, not the FASB, ultimately authorizes modifications/exceptions in GAAP for private companies, but such differences may be promulgated within a FASB standard (with the support of the new board). 7. The new board adheres to a differential framework to help ensure that there is no undue divergence in GAAP for public and private companies.		

Function	Recommendation	Alternatives Considered	BRP Commentary
New board overall process	The new board works with the FASB throughout the standard-setting process; the new board conducts robust outreach to private company stakeholders when the need arises; it issues Exposure Drafts (EDs) when proposing modifications/exceptions. The boards can issue joint EDs on fast moving topics, thus allowing the FASB and the new board to propose modifications/exceptions within a joint ED; the FASB or the new board (which one depends on facts and circumstances) issues final standards for such differences that are then embedded in the Codification.	The new board issues a separate ED and final standard on everything the FASB (including EITF) does.	The BRP believes the two boards and staff should work together to ensure that GAAP remains a single "language" wherever possible, and that the FASB still should attempt to consider input from private company stakeholders with a goal of developing the best possible standard for all companies.
New board composition/ structure	Full-time chair, full- or part-time other members, Possibly 5 to 7 total members, 1–2 users 1–2 practitioners 1–2 preparers Possibly 1 academic		The FAF should consider the pros and cons of a full-time versus a part-time board. A full-time board would allow for greater independence while a part-time board would require less funding and could help the board members stay better connected with private company constituencies and private company financial reporting issues.
Staff composition	Staff should have primarily private company sector background. Some shared staffing with FASB desirable.		Staffing composition depends on the board's structure and workload.

Function	Recommendation	Alternatives Considered	BRP Commentary
Board observers	Full-time new board chair or other member of new board attends all FASB board meetings as an official observer; the FASB designates one board member as an official observer to all new board meetings. Official observers have the right of the floor but do not vote.	Official observers have the right to vote (meaning they serve in effect as a board member).	Cross voting is impractical—for example, an observer might vote for something as part of the FASB Board and then would be hard-pressed to change his/her vote as a new board observer.
Advisory groups	The new board forms a primary advisory group—the PCFRC could possibly become such a body.		
New board governance	The FAF oversees the new board as it does the FASB/GASB; there is a 3–5 year sunset provision. The FAF increases the number of Trustees with private company stakeholder backgrounds; the FAF's post-implementation assessment on FASB/GASB standards is also applicable to new board.		
Approximate budget	$4–6 million; that could vary upward or downward subject to operating and structural specifics.		
Funding sources	A portion of FAF publications sales and mandatory contributory model from stakeholders (subject to further analysis, including legal).	State board licensing fee allocation.	An endowment approach might be an appropriate mandatory contributory model.

APPENDIX D

List of Previous Studies and Reports Considered by the BRP

The following is a list of previous studies conducted and reports issued by the FASB, various AICPA committees, and others concerning private company standard setting in the U.S. The Panel reviewed these as background information and discussed some of them during the course of its meetings.

1. *Report of the Study on Establishment of Accounting Principles,* AICPA, March 1972 ("Wheat Report")
2. *Report of the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses,* Accounting Standards Division of AICPA, Discussion Paper, August 1976
3. *Report of the Special Committee on Small and Medium-Sized Firms,* AICPA, 1980 ("Derieux Committee")
4. *Tentative Conclusion and Recommendations of the Special Committee on Accounting Standards Overload,* AICPA, December 23, 1981
5. *Report of the Special Committee on Accounting Standards Overload,* AICPA, February 1983
6. a. Invitation to Comment, *Financial Reporting by Private and Small Public Companies,* FASB, November 1981
   b. Special Report, *Financial Reporting by Privately Owned Companies: Summary of Reponses to FASB Invitation to Comment,* FASB, 1983
7. Research Report, *Financial Reporting by Private Companies: Analysis and Diagnosis,* FASB, August 1983
8. *Standards Overload: Problems and Solutions,* AICPA, June 1995
9. *Report of the Private Companies Practice Section Special Task Force on Standards Overload,* August 1, 1996
10. *What Do Users of Private Company Financial Statements Want?,* Financial Executives Research Foundation, 1996
11. *Private Company Financial Reporting Task Force Report,* AICPA, February 28, 2005, and supplementary survey results:
    a. Random Research Survey Results
    b. Broad Outreach Survey Results
    c. Comparison of Certain Random and Broad Outreach Survey Results
12. Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies,* FASB, June 8, 2006

APPENDIX E

Overview of the FAF and the FASB

The Blue-Ribbon Panel on Standard Setting for Private Companies (the Panel) was formed to develop a recommendation to the Financial Accounting Foundation (FAF) addressing accounting standards for private companies and the standard-setting process used to develop those standards.

Organized in 1972, the FAF is the independent, private-sector organization with responsibility for:

- Establishing and improving financial accounting and reporting standards
- Educating stakeholders about those standards
- The oversight, administration, and finances of its standard-setting Boards, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), and their advisory councils
- Selecting the members of the standard-setting Boards and advisory councils
- Protecting the independence and integrity of the standard-setting process.

Although the FAF has responsibility for establishing and improving financial accounting and reporting standards, it does not set those standards. That responsibility falls on the two Boards it oversees, the FASB and GASB. The FAF's role is to ensure that the Boards are independent and act with objectivity and integrity through an open due process which encourages active and collaborative involvement from all interested parties. It accomplishes that role through the oversight, administration, and financing of the Boards and their advisory councils, the Financial Accounting Standards Advisory Council (FASAC) and the Governmental Accounting Standards Advisory Council (GASAC). The FAF recently augmented its oversight procedures by establishing a formal post-implementation review process for the standards issued by the two Boards.

The Financial Accounting Standards Board (FASB), established in 1973, has been the designated organization in the private sector for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. The FASB's mission is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

Accounting standards issued by the FASB have been recognized by the U.S. Securities and Exchange Commission (SEC) as generally accepted for federal securities law purposes. State Boards of Accountancy and the AICPA have also recognized those standards as GAAP for financial statements of nonpublic entities.

For more information, the FAF website provides an overview of the FAF, with additional links to information about its officers and Trustees and contact information. For additional information about the FASB, the FASB website provides an overview of the FASB, with links to information about the Members of the FASB and its Rules of Procedure.

APPENDIX F

Recent Changes at the FASB

Since mid-2009, the FASB has made, and has continued to make, changes to bring greater focus on and otherwise improve its standard-setting activities with regard to the private company sector. FASB Board Chairman Leslie Seidman reported on these activities during the October 8, 2010, and December 10, 2010 BRP meetings.

Some of the key changes have involved augmenting the staff dedicated to private companies. In June 2009, the FASB appointed an assistant director who is responsible for strategic and technical oversight of private entity issues, including those of both private business entities and not-for-profit organizations, in addition to the project manager who was already dedicated to private company issues. In the last half of 2010, the FASB reassigned three other staff members to the private entities team to help address private entity issues throughout the FASB's projects, especially its Memorandum of Understanding projects with the IASB.

In August, 2010, the FAF announced that the FASB Board would increase in size from five members to seven members, with a private company background being one of the focal areas in recruiting for the new members. Among other benefits, the additional members will enable the Board to do more outreach through meetings and conferences attended by representatives of the private entity constituencies.

Beginning in 2010, a Board member started attending all meetings of the Private Company Financial Reporting Committee (PCFRC) to hear firsthand about private company issues arising from proposed standards. The interaction between the PCFRC and the Board benefits both groups, and thus the standard-setting process. The Board gets a better understanding of the issues and hears potential solutions. The PCFRC hears from a Board member why the Board has made the decisions it has made.

Outreach activities have been expanded in other ways to obtain more information specifically from the private company perspective. For the major projects, the Board and staff meet with private companies in field visits. To illustrate, the Financial Statement Presentation project team with help from the Technical Issues Committee (TIC) of the AICPA Private Companies Practice Section obtained financial statements from approximately 20 private companies, representing various industries, that recast the statements from the current presentation model to the proposed model. The recast statements were used in a study to see whether those statements resulted in better information for making lending decisions. A panel of 20 users of private company financials was assembled to provide feedback on those recast financials. The Board and staff are also now conducting public roundtables for various projects to hear specifically from the private entity constituencies about their issues and concerns on proposed standards.

The FASB held roundtables in October and November 2010 to hear about private company concerns with existing GAAP. Two items on the agenda were FIN 48, *Accounting for Uncertainty in Income Taxes,* and FIN 46R, *Consolidation of Variable Interest Entities*. The format of the roundtables allowed for users, practitioners, and preparers to discuss issues with the Board and help give insight as to what information is useful, and how it can be provided cost-effectively. Another issue raised was the use of fair value by private companies, especially with regard to impairment testing. At the December 10th Panel meeting, Ms. Seidman stated that the FASB had added a near-term project to its agenda to look at this issue.

Other activities designed to better serve private entities include the use of plain English in webcasts, podcasts, and Twitter feeds to help educate them about the FASB's projects and to solicit more participation by them in the standard-setting process.

Ms. Seidman stressed that these actions show that the Board is committed to understanding private company issues and incorporating a careful consideration of them in the standard-setting process.

APPENDIX G

List of Respondents to Questions Posed by the BRP and Summary of Written Submissions

WRITTEN SUBMISSIONS FROM THE PUBLIC

List of Interested Parties Who Responded to Questions Posed by the Blue-Ribbon Panel (in order received)

Letter	Affiliation or Individual[19]
1	Thomas Malkoch
2	Jodi Gill
3	Russell Abernathy
4	Carl Bagge
5	Jeremy Veilleux
6	Lance Mann
7	Laura Lewis
8	Lauren Barnet
9	Frankel And Topche, PC
10	Joan Waggoner
11	Anonymous
12	Bruce Benator
13	O'Sullivan Creel, LLP
14	Jay Tolsma
15	David Wagner
16	Todd Lisle
17	Morris, Kalish + Walgren, P.C.
18	Howard Bornstein
19	Mike Sedam
20	Gross, Mendelsohn & Associates, P.A.
21	Michael Nesland
22	Ken Posner
23	Peter Kwong
24	Philip Stoler
25	Ernest Lapp
26	Frank Minter
27	Flexco
28	Nancy Mccleary

[19] Some of the respondent letters were grouped together by affiliation.

Letter	Affiliation or Individual
29	Shaun Bawden
30	Scott Robinson
31	Peter Philbrick
32	Eric Smith
33	Scott Womble
34	Brenda Smith
35	Carl Chatto
36	Michael Atkins
37	Medina Company, PSC
38	Theodore Medrek
39	Parentebeard, LLC
40	David Johnson
41	Carol Uhl
42	Quick & Mcfarlin, P.C.
43	Garry Hutchison
44	Larry Sample
45	Art Thielen
46	Robert Foley
47	Steve Freimuth
48	Doug Knights
49	Leatham & Associates, CPAs
50	Curtis Root
51	Doug Hawkes
52	Withumsmith+Brown P.C.
53	Alan King
54	Doug Chaffins
55	Hoots, Baker & Wiley, PC
56	Tommy Thomson
57	David Frizzell
58	Charles Postal
59	James Lagana
60	Stu Harden
61	Steve Rabin
62	Caler, Donten, Levine, Porter & Veil, PA
63	Bart Tiffany
64	Vickie Martin
65	Gish Seiden, LLP
66	Candido Fernandez

Letter	Affiliation or Individual
67	Michael Moore
68	Sherman Rosenfield
69	Hogan - Hansen, PC
70	David Hurley
71	Doug Donaghue
72	Mahesh Chithkala
73	Cherry, Bekaert & Holland, LLP
74	David Strottmann
75	Susan Ryan
76	Culver Lamb
77	National Rural Electric Cooperative Association
78	Steve Morris
79	National Cooperative Business Association
80	Kennedy And Coe, LLC
81	Arthur Hendricks
82	Institute Of Chartered Accountants In England And Wales
83	Yeo & Yeo CPAS and Business Consultants
84	Dee Brown, Inc.
85	Stan Sterk
86	Packer Thomas
87	Mike Beach
88	Don Lueger
89	O’Brien Energy Company
90	Deseret Power
91	Kreston International
92	Vickie Beer
93	Ernst & Young LLP
94	The Madray Group
95	John Litchfield
96	Beach Fleischman
97	Jerry Mcmillon
98	Steakley & Gilbert, P.C.
99	Prather Kalman, P.C.
100	Geoff Flynn
101	Jerry Woods
102	Tom Hoey
103	Heidi Lee
104	Patrick Murry

Letter	Affiliation or Individual
105	David Baugh
106	David Kasuba
107	Bart Adams
108	James Branch
109	Karen Keller
110	Pricewaterhousecoopers
111	Pennsylvania Institute of Certified Public Accountants
112	Financial Executives International, Committee on Private Company Standards
113	Barfield Murphy Shank & Smith, P.C.
114	Munninghoff, Lange and Company
115	Clifton Gunderson, LLP
116	Deloitte & Touche, LLP
117	Anders Minkler & Diehl, LLP
119	Ohio Society of Certified Public Accountants
120	John Mcdaniel
121	Texas Society of Certified Public Accountants
122	Susie Repko
123	Pershing Yoakley & Associates, P.C.
124	Rea & Associates, Inc.
125	Ima/Sbc
126	Marc Porter
127	Plante & Moran PLLC
128	Emilio Colapietro
129	Maryland Association of Certified Public Accountants
130	Mark Blackburn
131	James Pistillo
132	Ted Lodden
133	Illinois CPA Society
134	Battelle & Battelle, LLP
135	California Society of Certified Public Accountants
136	Hines Interests L.P., Southwest Region
137	Weisermazars, LLP
138	Harry Drew
139	Sensiba San Filippo, LLP
140	Fort Pitt Group, LP
141	Barnes Wendling CPAs
142	Crowe Horwath, LLP
143	Clark Nuber P.S.

Letter	Affiliation or Individual
144	Grant Thornton, LLP
145	Piercy Bowler Taylor & Kern, CPAs
146	McGladrey & Pullen, LLP
147	Managed Health Care Associates, Inc.
148	KPMG, LLP
149	Great American Insurance Company, Contract Surety Division
150	CPAmerica
151	Federal Financial Institution Regulatory Agencies

RESPONDENT PROFILE

1. As of October 1, 2010, the Panel received written submissions from 148[20] respondents. Three additional response letters (#149–151) were received after October 1, 2010, and were not included in the summary below but were discussed at the October 8, 2010 BRP meeting. Certain key aspects of letter #151 have been included in the body of the report. The entire respondent population has been identified below:

Respondent Type	Number of Respondents	Percentage
CPA firm with fewer than 5 partners (including sole practitioners)	**36**	**24%**
CPA firm with 6 to 20 partners	**26**	**17%**
CPA firm with 21 to 100 partners	**13**	**9%**
CPA firm with 101 to 500 partners	**5**	**3%**
CPA firm with over 500 partners	**6**	**4%**
CPA firm, size not specified	**11**	**7%**
Lender	**2**	**1%**
Owner	**2**	**1%**
Preparer	**15**	**10%**
State CPA society	**6**	**4%**
Trade organization	**4**	**3%**
Regulator	**1**	**1%**
Other (anonymous or not specified)	**24**	**16%**
TOTAL	**151**	**100%**

[20]Some of the respondent letters were grouped together by affiliation.

SUMMARY OF RESPONSES

2. The opinions of respondents varied considerably. Given the quantity of the comment letters, the following sections are meant to highlight common themes they presented.

QUESTIONS FOR SUBMISSIONS

All respondents:

Question 1: Please complete the attached form to help compile information on the respondents and send as a separate attachment.
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3. See above respondent profile.

Question 2: Users (e.g., lender, surety, investor, owner) only:

a) Briefly describe how you use U.S. GAAP financial statements in your decision making concerning private companies.

4. One trade organization indicated that users use GAAP financial statements as one of their tools to monitor a company's performance and to ensure that they have a complete picture of the company. A member of a different trade organization said they use financial statements to look for "red flags" but not much else. This member felt that financial statements provide some comfort but also mentioned that users didn't feel that GAAP financial statements are very useful.
5. Another trade organization felt that GAAP financial statements are not a desired tool for operating an enterprise.
6. Lenders stated that they use financial statements to analyze a customer's financial position to make appropriate lending decisions. One lender stated that the majority of its customers prepare financial statements on a cash or tax basis.
7. One owner stated that they only use GAAP financial statements once a year to share the results with their employee owners and with their bankers. This owner further discussed certain GAAP accounting requirements that would terribly misstate information if the owners used the statements to manage the business.

b) Tell us about any issues or concerns that you may have with respect to the relevance of the information contained in those statements. Please be as specific as possible in your answer.

8. Many of the trade organizations commented that there is an overload of financial information in GAAP financial statements that is not relevant. One trade organization felt that if GAAP financial statements were simplified, it would be more useful to small and private companies from an operational perspective.
9. One lender felt that if all financial statements were prepared in the same fashion, it would help make decision making more uniform. However, in reality, a "one size fits all" approach in relation to GAAP financial statements does not work. This

lender stated that fair value accounting is not relevant to an investor and owner and that it frequently increases accounting costs and confusion.

Question 3a: Tell us about any issues or concerns you have with current U.S. GAAP accounting standards as those standards apply to private company financial statements.

Lack of relevance to users

10. CPA practitioners with fewer than 5 partners shared several concerns about the relevance of U.S. GAAP to private companies. These respondents generally shared a view that there is a disconnect between private companies and the standard-setting process that has led to reporting requirements that do not seem to be useful or relevant to the users of private company financial statements.
11. These small CPA practitioners also stated that the users, generally banks and bonding companies, are interested in financial information that can help them determine the amount, timing, and uncertainty of cash flows. Many of the most costly standards for private companies to implement contain complex disclosures that focus on information that their users do not understand and which does not provide value to the users. One respondent suggested that their bankers will often ignore fair value disclosures because of this reason. This point is further demonstrated by the fact that many users have been accepting of financial statements that are prepared on an other comprehensive basis of accounting ("OCBOA"), usually the tax basis.
12. CPA practitioners with 6 to 20 partners shared some of the views above. Some of these respondents noted that accounting standards are primarily designed to meet the needs of equity analysts. There are certain disclosure requirements that do not provide any incremental benefit to the users of private company financial statements. For example, these users will not be concerned about how a stock price increases in value based on how a company performs. These respondents maintained that different users have distinct needs, and that the current accounting standards are not fulfilling the needs of users of private company financial statements.
13. Most CPA practitioners with 21–500 partners also agreed that the public company focus of standard-setting activities leads to complex accounting and that ultimately provides little benefit to many users of the financial statements.
14. Certain CPA practitioners with over 500 partners shared the general concern that some standards are not relevant to certain users. However, these respondents arrived at some different conclusions. One such respondent noted that, broadly speaking, accounting should faithfully represent the economics of an underlying transaction. As a result, recognition and measurement should be based on the transaction itself and applied consistently regardless of the nature of the reporting entity. Moreover, there is a benefit to using consistent standards as a private company grows and becomes more similar to its public counterparts. This respondent noted that both private and public companies have questioned the relevance of certain standards, at times the same standards, to the decision making of their users and further concluded that the improvements and changes should relate to all companies.
15. CPA practitioners with over 500 partners also felt that the issue of relevance is not confined to private company financial reporting. Echoing the sentiments of the other

CPA practitioners' responses, they noted that public and private company financial statement user needs vary by user. However, users are already currently equipped to deal with this, and they have the ability to adjust financial statements prepared under GAAP to tailor them and eliminate the effects of certain standards that they do not find relevant.

16. Responses from lenders expressed a similar view that information they look for depends on the specific entity, and a "one size fits all" approach would not be able to fulfill their needs.
17. A preparer respondent stated that "we do not use GAAP financial statements for any business decision making in our capacity as asset manager or investor" and that GAAP financial statements provided little value to their particular user group. Another stated that:

    > "In theory, if all financial statements were prepared the same, it would simplify the analysis of the information and make decision-making more uniform. However, in application, this is not practical. One size does not fit all. There is a cost/benefit perspective that needs to be applied. And relevance becomes the overriding issue."

18. Trade organizations shared similar sentiments to the CPA practitioners above. One respondent specifically pointed out that as fair value becomes more embedded into the balance sheet, the assets and liabilities that are presented do not translate into future cash flows. As a result, users find it difficult to make sense of that information.
19. Owners expressed a lack of interest in the GAAP financial statements. One respondent stated that the GAAP financial statements were used only once a year to share results with their owners. Owners and lenders have a historical cost perspective, and the information they are interested in is not being captured by the financial statements.

<u>Complexity and pace of standard setting</u>

20. CPA practitioners with fewer than 5 partners generally agreed that there were challenges related to not only the complexity of standards but to the recent pace of standard setting. Many respondents found that complexity not only led to difficulty for their clients in preparing the financial statements but also to a lack of understandability by internal and external users. Some respondents felt that the disclosures required by GAAP are incomprehensible to both the average reader and even some sophisticated users. At the same time, the increased pace of standard setting recently has only served to intensify this issue. Respondents explained the difficulty of keeping abreast of new Exposure Drafts issued by the FASB. These respondents have found it challenging to find the means to comment on Exposure Drafts and to participate in the stages of due process.
21. CPA practitioners with fewer than 5 partners also believed that the complexity of the standards are exposing firms to additional liability and risk because they do not have the in-house capabilities and time to stay abreast of the changing standards.

22. CPA practitioners with 6 to 20 partners echoed the sentiments about the complexity of standards. One practitioner felt that the new and complex accounting standards have placed an unnecessary burden on small businesses and CPAs.
23. A CPA practitioner with 21 to 100 partners also noted that the increased complexity of accounting standards has been causing clients to rely more heavily on CPA firms, potentially causing independence issues.
24. CPA practitioners with over 500 partners shared many of the same concerns about complexity. One practitioner felt that the increase in complexity was partly due to the increasing complexity of business transactions and partly due to certain disclosure requirements that have become too burdensome.
25. Several CPA practitioners, varying in firm size, and trade organizations were concerned about the increasing frequency with which proposed standards are being issued. One practitioner stated that it appeared the window of time during which FASB accepts comment letters had decreased. In addition, the pace of change makes it more difficult to keep up with and evaluate the applicability of new proposals. Other practitioners and preparers also claim that the timing of certain standards was rushed. As such, there has been an increase in revised standards and numerous staff positions (now ASUs) to help deal with complexities that they felt were not addressed prior to the initial release of the standards.
26. Chief financial officers and a respondent from a state CPA society felt similarly that accounting standards had become too complex for the average accounting department at a private company and frequently were beyond the expertise of their auditors. One CFO stated that:

    > "Those of us out in the economy doing day in and day out financial reporting find it almost impossible to even keep up with the changes in GAAP and what current GAAP applies to our companies' (sic) situations and financial transactions. Most people, no matter how well educated, cannot read much less understand a GAAP financial report … they are for use by the "financial elite" who probably do not understand them either."

27. A preparer responded that the biggest challenge was not the complexity of the standards themselves but rather having to provide the necessary education for private sector accountants.

<u>Costs exceed benefits</u>

28. CPA practitioners with fewer than 5 partners generally agreed that the cost of preparing GAAP financial statements has increased compared to the perceived benefits that certain new standards have brought to financial reporting. One practitioner felt that "there seems to be no consideration of the cost to implement a standard, whether in terms of internal resources, external costs or even the ability of the CPA to get paid for the additional work necessary to conform a client to new standards." Practitioners in the same group felt that the FASB is so concerned with public companies that they do not consider the cost to implement certain standards with respect to private companies. They believed the cost to pay for external valuation analysis such as goodwill impairment, acquisition accounting, and stock

compensation is a greater financial strain for private companies than for public companies.

29. CPA practitioners with 6 to 20 partners generally agreed that the benefits do not exceed the costs because private company users have the ability to confer directly with management. This group also believed that if private companies were subject to a limited or simplified set of standards, companies would benefit because they would be more apt to have a financial statement audit. These practitioners felt that many of their clients rely on the CPA firm to draft their financial statements, so the compliance costs and CPA firm's liability goes up. Generally, this group felt that the new standards are placing an undue financial burden on many private companies while there is no perceived benefit for private company users.
30. CPA practitioners with 100 to 500 partners also generally felt that the cost of GAAP financial statements often exceeds the benefits. One practitioner felt that the costs that private companies incur to obtain technical knowledge to comply with GAAP and to be able to prepare GAAP financial statements outweigh the benefits.
31. CPA practitioners with 500 or more partners felt that the FASB should develop concepts to help the standard setting with cost-benefit analysis. One practitioner in this group stated that "private companies face different cost/benefit considerations that make it difficult to justify application of certain aspects of U.S. GAAP." Another practitioner suggested that the cost-benefit considerations could differ between public and private companies, which could justify disclosure differences for private companies.
32. Another CPA practitioner with 500 or more partners stated that "because the needs of private company users may be different from those of public company users, we encourage the FASB to increase its outreach to private company preparers, users, and auditors to better ascertain the costs and benefits of applying new accounting standards. The feedback received will help the FASB better evaluate the situations in which divergence in the guidance for public and private companies is appropriate. Disclosure, transition, and effective dates are examples of areas in which such divergences may be warranted."
33. Some trade organizations felt a cost-benefit analysis based on some clearly defined parameters to help guide deliberations on new standards may help with cost-benefit considerations. Another trade organization felt that companies without audited financial statements pay a premium to obtain capital.
34. A lender response also pointed out a concern relating to unintended consequences of new GAAP as it relates to regulatory requirements. The lender noted that, often, changes in GAAP will lead to changes in the regulatory requirements to which a private company must adhere. However, in many of these cases, the regulatory requirements will not consider materiality thresholds, and private companies will become subject to extensive and sometimes onerous regulatory reporting.
35. One chief financial officer felt that accounting standards such as fair value are not useful to the users and compliance costs are going up to comply with such standards.

Increasing Qualified Opinions and use of OCBOA

36. Some CPA practitioners expressed concerns about the increasing number of qualified opinions that they see issued for private companies.
37. One respondent from a firm with 6 to 20 partners observed that small businesses are increasingly receiving deficiencies in internal controls because of the inability to prepare financials with appropriate footnotes.
38. A respondent from a firm with 101 to 500 partners felt that GAAP departures dilute the usefulness of financials because such departures allow private companies to pick and choose which standards to comply with.
39. Many of the smaller practitioners stated that their clients prepare financial statements under an OCBOA method. One practitioner from a firm with fewer than 5 partners that provide statements on the income tax basis noted that "our firm quit providing our clients and their lenders and owners GAAP statement over ten years ago. We could not justify the cost of compliance to these standards for the benefits received."

Standard-setting process

40. Many CPA practitioners felt that the standard-setting process has historically been driven by the needs of public companies. Many of the CPA practitioners with fewer than 5 partners felt that some recent standards are perceived as being reactionary measures borne from emergencies, political pressures, and fraud.
41. Some responses from CPA practitioners cited concerns about the responsiveness of the standard-setting process to the needs of private companies. One respondent from a CPA firm with fewer than 5 partners noted that there is a perception that the input that private companies provide is not taken seriously, and that the time and effort spent on that endeavor is wasted. Other respondents felt that the standard-setting process is overly focused on the perceived needs of users of large public company financial statements. One respondent from a firm with 6 to 20 partners suggested that the voluntary nature of the comment process does not capture the needs of small companies.
42. A CPA firm with over 500 partners felt that:

    > "…[a] board composed of accounting experts whose experience and dedication is primarily to meet the objectives of preparers, auditors, and users of the financial statements of publicly accountable entities is likely not the best choice for setting standards for private companies that are less focused on capital allocation decisions and more concerned with meeting the needs of a broad range of users in a cost-effective manner."

43. One trade organization stated that issues and concerns about the standard setters has been a growing issue and hit a "tipping point" when the FASB voted against the work of the PCFRC relative to the release of FIN 48 and FIN 46R.

Question 3b: Are those issues or concerns confined to one or more specific standards, or are they more systemic?

44. The overwhelming majority of the respondents felt the issues or concerns were systemic. Approximately 60% of the respondents cited certain accounting issues as being most problematic. Over half of those respondents had specific concerns regarding income taxes/uncertain tax positions, variable-interest entities, and fair value. Other accounting issues cited included derivatives and other financial instruments, stock compensation, straight-lining of leases, comprehensive income, business combinations, and the proposed lease and revenue recognition standards. In addition to the problematic standards, the majority of the respondents felt the issues were systemic due to the broad-based issues such as the increase in complexity, the pace of change of U.S. GAAP, the increase in qualified or exception-based GAAP opinions, the number of companies reporting under OCBOA, and compliance costs as mentioned above.

Question 3c: Do you believe that those issues or concerns are largely confined to private companies, or are they broader? Please be as specific as possible in your answers.

45. There were varying responses regarding whether the issues or concerns were largely confined to private companies. Many respondents did not respond directly to this question or indicated that they were not able to judge whether the issues were broader because they only deal with private companies. Many respondents suggested that the issues and concerns were broader and also applied to public companies. However, many of those respondents felt that public companies have more resources to deal with the problems. Some of the respondents indicated that the issues also apply to smaller public companies, in particular, because, similar to many private companies, they tend to have limited company resources. One trade organization stated that complexity is a problem for all, but "public companies enjoy access to public capital as a benefit. Private companies and their users do not receive the benefits but have the same costs."

Question 4: What short-term and/or long-term actions do you believe are necessary to address those issues or concerns? Please be as specific as possible in your answer, and explain your reasoning.

<u>Short-term actions</u>

46. CPA practitioners with fewer than 5 partners generally felt there is some urgency in the need to take action. With regard to proposed new accounting standards, these respondents felt that there should be increased education and awareness about the proposals, specifically targeting private companies. Some suggested webcasts, educational publications, and field tests to fully gauge the real-world impact of new standards on private company stakeholders. One respondent from a CPA firm with 6 to 20 partners felt that the FASB should specifically seek commentary and feedback

from creditors and creditors' organizations. Respondents also expressed the need for delayed effective dates and longer implementation periods on the new standards.

47. CPA practitioners with over 500 partners generally echoed the sentiments that the FASB should seek more input from private companies during the standard-setting process. One respondent suggested developing a standardized method of collecting and considering views from private company constituents to capture their perspective during the deliberations of each new standard. Additionally, one respondent added that the FASB could strive to provide clearer explanations in the basis for conclusions section of new standards.
48. One CPA firm with over 500 partners also felt that, going forward, an effort should be made to ensure that new standards are more easily understood by all companies. Moreover, practical expedients for private companies should be considered, and disclosure requirements should be scaled to be appropriate for the primary users of private company financial statements.
49. A lender responded stating that one short-term solution would be to slow the current pace of standard-setting activities, allowing more private companies to stay current with and participate in the process.
50. With regard to existing standards, CPA practitioners with fewer than 5 partners felt that there should be more willingness by the FASB to provide private companies with exceptions to specific standards. Firms with 6 to 20 partners felt similarly, stating that there should be exemptions from standards that do not benefit the assessment of essential operations. One respondent from a firm with 6 to 20 partners suggested that standards that have been identified as having questionable relevance to the users of private company financial statements should be immediately suspended and a cost-benefit analysis performed. One respondent proposed forming a coalition of creditor users and those engaged in the standard-setting process to identify areas of the accounting literature in which the needs of creditor users and equity investors differ. This analysis would be performed first on the conceptual framework and second on a standard-by-standard basis.
51. A chief financial officer similarly requested that more exemptions be allowed for private companies. This respondent felt that the problems with some standards, for example fair value, warranted differences in recognition and measurement.
52. Other respondents also supported exemptions from certain standards, specifically those that did not focus on cash inflows and outflows. Another suggestion was a simplified checklist format for disclosures, with an emphasis on understandability and use of non-technical language.
53. CPA firms with over 500 partners generally indicated that, in some cases, relevance and cost-benefit concerns might warrant differences in effective date, transition, and disclosure requirements for private companies. One firm noted that reduced disclosures may be appropriate if it can be shown that users can obtain any incremental information they might need directly from management.
54. Others suggested that the FASB suspend all proposed standards for private companies until a definitive resolution is determined by the FAF.

Long-term actions

55. Respondents discussed a wide variety of possible long-term actions. Several CPA firms with fewer than 5 partners advocated a separate board devoted to developing standards for private companies. One respondent stated that such a board should be made up of CPAs from regional firms, who would better understand closely held companies. Another respondent advocated for differential reporting and regulatory standards based on size rather than filing status.
56. One response from a CPA practitioner with 21 to 100 partners supported an approach in which the standards issued up to a certain date would be retained for use by private companies. Going forward, each new standard promulgated for public companies would be evaluated for its relevance to private companies. All private companies would retain the option of reporting under full public company standards. Thus, the market would essentially determine which set of standards a private company would report under.
57. Another respondent from a CPA firm with 6 to 20 partners shared a similar idea. This respondent stated that banks were the primary users of private company financial statements. As such, they would ultimately determine the standard setter and level of reporting that is appropriate to meet their needs.
58. Several CPA firms with over 500 partners felt that any substantial recommendations by the Panel might be premature in light of the SEC's forthcoming decision regarding IFRS for public companies. Although the SEC's actions would only directly affect public companies, there would be ramifications for private companies as well. Actions by the Panel may result in unnecessary confusion and complication.
59. Another practitioner with over 500 partners stated that the Disclosure Framework and Conceptual Framework projects should consider the needs of private companies in their goal to create meaningful and effective financial statement disclosures. This respondent also recommended performing some research to help determine whether there were disclosures that could be easily eliminated for private companies.
60. Another respondent from a CPA firm with over 500 partners had a similar suggestion to perform research in order to determine how best to meet the different needs of users of private company financial statements. However, this respondent discussed changes beyond disclosures and into possible differences in recognition and measurement.
61. Another possibility presented was utilizing special-purpose reports to fulfill the diverse needs of users when the use of audited GAAP financial statements is limited.
62. One respondent from a CPA firm with over 500 partners presented several alternative solutions to consider. The first possibility was establishing two distinct standard-setting boards, one to focus on standards for publicly accountable entities and another to focus on the reporting objectives of private companies. The second possibility was creating two boards that had some level of overlapping membership in order to foster collaboration and maintain some consistency. The third possibility was retaining one standard-setting board but creating a subsidiary board to focus on issues relating to private company and not-for-profit entity issues. Respondents from this group also noted that with any of these potential solutions, there would be a need for increased funding and education.

63. Responses from preparers generally indicated that substantial changes were desired. They felt that the lack of relevance of certain standards justified differences not only in disclosure but in recognition and measurement as well. One respondent also had specific concerns about the current cash flow statement. This respondent recommended examining whether the statement was providing value to users in its current form.
64. A response from a state CPA society concurred that some distinction was needed between the reporting for public and private companies. Another state society felt that preparing financial statements on the tax basis was a practical solution to the relevance issue. However, this state society also noted that more guidance was necessary to support using the tax basis as OCBOA.
65. Other respondents had some differing views. Some felt that developing a new set of standards would introduce unnecessary complications since private companies already have the choice of reporting under other comprehensive bases of accounting. On top of that, the complexity of an additional set of GAAP would have implications for academia and practice.
66. Alternatively, a respondent felt that the existing accounting literature should undergo a full relevance review with the perspective of private company concerns.
67. There were other mixed reviews about whether a separate board should set private company standards. One CPA practitioner suggested a practitioner board composed of small to medium firms should set private company GAAP. Another practitioner felt that the separation of standards was long overdue and that a separate private company board made up of users, preparers, and issuers of private companies should set those standards.
68. Another practitioner felt that any attempt to revise U.S. GAAP for private companies would not be successful without a related revision to the framework. This practitioner shared similar views to other practitioners that private companies should have a greater representation in the standard-setting process.

Question 5a: To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect your answers above? Why?

IFRS

69. Some respondents felt that while a separate set of standards might be desirable, the SEC decision to require public companies to adopt IFRS should be made first. Some felt IFRS for SMEs would be a viable option. Some of these respondents felt that the Panel may have been too hasty in rejecting IFRS for SMEs.
70. CPA practitioners had widely differing views on IFRS and the role that it might play in financial reporting for private companies. Some respondents from CPA firms with fewer than 5 partners found that their clients did not have a great concern for or awareness of IFRS broadly and IFRS for SMEs. They indicated that many small firms simply do not care and feel that IFRS is irrelevant for companies that do not have significant international operations. One respondent from a CPA firm with 6 to 20 partners agreed that IFRS should not be mandatory for private companies that do not have international investors.

71. On the other hand, a CPA practitioner with 6 to 20 partners observed that its clients were increasingly engaging in international transactions.
72. Some CPA practitioners with fewer than 5 partners felt that the move toward IFRS in the realm of public companies would have a trickle-down effect on private companies in the U.S. Some of the perceived consequences of this trickle-down effect would be increased complexity and limited comparability, increased costs for conversion, and division of the talent pool.
73. Still other respondents felt that private company financial reporting could benefit from a shift toward IFRS. IFRS for SMEs was developed to address the differing reporting needs of private companies. One respondent felt that a move toward a single global standard and worldwide comparability is a positive step.
74. A respondent from a CPA firm with over 500 partners shared a similar sentiment, noting that IFRS for SMEs could be used as a starting point for developing any differential standards for private companies or not-for-profit entities. The respondent maintained that this could help to provide some timely relief for private companies while mitigating some of the risk of diverging too greatly if financial reporting for public companies in the U.S. moves towards IFRS.
75. A preparer expressed concerns about inconsistent application and the subjectivity involved in the more principles-based international standards. Another respondent, however, felt that the principles-based approach could help to address the overwhelming complexity of the current rules.
76. One respondent also noted that a move towards IFRS could increase companies' exposure to international interests, potentially opening up new commercial opportunities.
77. Some respondents feel that IFRS for SMEs was created for very small companies and for developing nations that lack much accounting structure.
78. Another respondent indicated that the future of accounting of private companies affects not only the U.S. It is an issue in Europe and the rest of the world as a growing number of countries are moving toward IFRS.

Question 5b: To what extent, if any, would other outside factors affect your answers above? Which factors and why?

79. Some commented that the needs of users could have an impact on their answers. Another respondent felt that users would be practical about the financial information they would be willing to accept. Other respondents stated that if users started to require IFRS statements, some of their answers would change.
80. Another respondent suggested that the biggest outside factor is the income tax system.

Question 6: Is there any other input that you'd like to convey to the Panel?

81. Some CPA practitioners had general concerns regarding comparability if the Panel were to recommend going to two separate standards. One CPA practitioner with 6 to 20 partners stated that "many new pronouncements appear to be geared toward the complex transactions of the public filers. That all being stated, I have some angst

with respect to the impact two sets of standards might have, given that two sets of standards would clearly mean differences in comparability of a public company versus a private company, both of which might also operate internationally. I'm unsure how analysts, investors, creditors and other would assess the differences, or what impact those differences might have on such things as the cost of financing, investor confidence and our financial markets."

82. One practitioner felt that two sets of standards would appropriately address the problems but most standards should remain the same for comparability issues. The practitioner believes that standard setters should try to fix the main issues for private companies but leave the majority of the standards the same.
83. One practitioner with 6 to 20 partners felt that there was a benefit to retaining consistency between the financials for private and public companies, but that some relief was necessary. The practitioner suggested retaining a single set of accounting literature but varying the degree of application for public and private companies; in this way, there would be consistency across accounting principles, with flexibility in application.
84. One trade organization felt that a more principles-based approach could also decrease comparability among companies.
85. Some respondents felt that the standard setters should keep the economics of implementation in mind.
86. Some respondents were concerned about the proposed leasing standard. One CPA practitioner was concerned that putting leases on the balance sheet would not improve the value of financial statements and would overcomplicate and confuse users. Another practitioner maintained that CFOs and banks need to know the true cash impact of leases as approximated by Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). If nearly all operating leases become capital leases, interest and depreciation associated with the capital leases will be added back to EBITDA calculations resulting in the illusion that these leases do not impact EBITDA.
87. One trade organization felt that the cost of capital is another part of the problem. Companies without audited financial statements or without clean opinions pay more for capital.

Questions 7: Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

88. Many respondents indicated that their response represented their individual views and many indicated their response represented the view of their particular organization. It appeared that the larger the CPA practitioner the individual represented, the more likely he or she responded as an organization.

APPENDIX H

Models and Structures Considered

The staff prepared public meeting handouts to facilitate the audience's understanding of the issues being discussed by the Blue-Ribbon Panel during its July 19, 2010 and October 8, 2010 meetings on alternative standard-setting models and structures for U.S. private companies. This appendix contains portions of those handouts.

"Blue-Ribbon Panel" on Standard Setting for Private Companies Third Meeting (July 19, 2010): Alternative Standards/Standard-Setting Models and Structures for U.S. Private Companies

Based on what the "Blue-Ribbon Panel" (the Panel) has heard at its first two meetings, there appear to be broad-based concerns among private company stakeholders, especially preparers and practitioners, with the current standard-setting system (especially some of the resulting standards). In this meeting, we will focus primarily on various alternative models and structures for standard setting for private companies.

The discussion of models will focus on what type of standards and standard-setting process will best facilitate financial reporting that will meet the needs of users of private company financial statements in a manner that is cost-beneficial for private company preparers, practitioners, users, and others in the financial system. The models are as follows:

U.S. GAAP-BASED/ "HOMEGROWN" MODELS:

<u>Model 1 – U.S. GAAP with Exclusions for Private Companies – current system</u>

<u>Model 2 – U.S. GAAP with Exclusions for Private Companies – with enhancements</u>

<u>Model 3 – U.S. GAAP—Baseline GAAP with Public Company Add-Ons</u>

<u>Model 4 – Separate, Standalone GAAP Based on Current U.S. GAAP (the "Canadian" Approach)</u>

<u>Model 5 – Separate, Standalone GAAP from the Ground up Based on New Framework</u>

IFRS-BASED MODELS:

Model 6 – Unmodified IFRS for SMEs

Model 7 – IFRS for SMEs Customized ("Americanized") for U.S. Private Companies

Many of these models, which are briefly described in the Appendix, build upon work performed by the Private Company Financial Reporting Committee (PCFRC) and other organizations. Most of the models contemplate the creation and/or use of some sort of private company conceptual framework. The models represent two continua, one based on U.S. GAAP and another based on IFRS. Along these continua, the model that the Panel ultimately homes in on may actually combine features of more than one of the models. Or, the Panel might home in on a succession of models, one shorter-term and potentially another longer-term—if, for example, the ultimate model would take a long time to achieve or if the choice of an ultimate model is viewed as somewhat dependent on outside factors, such as the SEC's decision regarding whether and how to adopt/incorporate IFRS for public companies.

In its discussion of models, the Panel will weigh the pros and cons of the models, both in the specific context of the private company sector and the broader context of the financial reporting system as a whole.

The Panel will also discuss various possible structures for the standard-setting board (and related resources, such as advisory groups), perhaps the key driver in achieving the desired model(s). These structures are arrayed along the following two continua:

STRUCTURES FOR U.S. GAAP-BASED/ HOMEGROWN MODELS:

Structure A – Current FASB Board

Structure B – Restructured FASB Board (with greater private company representation)

Structure C – New, Separate Private Company Standards Board

STRUCTURES FOR IFRS-BASED MODELS:

Structure D – IASB Board

Structure E – Board Structure for Customized IFRS for SMEs (in addition to IASB Board)

- **i) Current FASB Board**
- **ii) Restructured FASB Board**
- **iii) New, Separate Private Company Standards Board**

As with the models, the Panel could ultimately home in on only certain elements of the structure, on a combination of structures, or on an evolutionary series of structures.

APPENDIX: MODELS

Model 1 – U.S. GAAP with Exclusions for Private Companies – current system

- Current U.S. GAAP (the Codification) would be used by all companies and improved as necessary through the FASB's regular standard-setting activities.
- Those activities utilize the current FASB Nonpublic Entity staff (Assistant Director, Project Manager, Postgraduate Technical Assistant), who work with the FASB project staff and the FASB board in a close, consultative capacity (leading to explicit consideration of private company issues and feedback, documented in the Basis for Conclusions section of all proposed and final Accounting Standards Updates), and with the PCFRC and FASB's Small Business Advisory Committee in their current advisory roles.
- Differences (exclusions) for private companies would continue to be determined on a standard-by-standard basis.
- This model would not contemplate the creation of a separate conceptual framework for private companies.
- However, a project to simplify standards, especially in the area of disclosures, could be undertaken for all entities (private and public), perhaps in connection with the FASB's Disclosure Framework Project.

Model 2 – U.S. GAAP with Exclusions for Private Companies – with enhancements

- Current U.S. GAAP (the Codification) would be used by all companies and improved as necessary through the FASB's regular standard-setting activities.
- Differences (exclusions) for private companies would continue to be determined on a standard-by-standard basis.
- A conceptual framework for private companies would be created to serve as a basis for making exceptions. Such a framework would be based on user needs but would be modest (approximately on the level of the "Concepts and Pervasive Principles" chapter that the IASB put into the IFRS for SMEs document).
- Various other enhancements could be made, such as to board structure, staffing, and other elements of standard-setting. For example, the FASB could be expanded to include a member with small, private company experience. Together with the private company conceptual framework, these enhancements might further ensure that appropriate and adequate focus is placed on private company issues, with resulting differences for private companies.

Model 3 – U.S. GAAP—Baseline GAAP with Public Company Add-Ons

- Current (existing) U.S. GAAP (the Codification) would be reviewed and reorganized into a baseline GAAP for all entities, based on user needs, and with additional GAAP requirements ("add-ons") for public companies.

- The approach to standards currently under development could be changed to establish a baseline standard for all entities and additional requirements for public companies even before completion of the overall baseline separation project.
- This model contemplate the need to create a separate conceptual framework for private companies, or to reexamine/revise the existing conceptual framework, to serve as a basis for making decisions as to what to put in the baseline. If separate, such framework would be modest (approximately on the level of the "Concepts and Pervasive Principles" chapter that the IASB put into the IFRS for SMEs document).

Model 4 – Separate, Standalone GAAP Based on Current U.S. GAAP (the "Canadian" Approach)

- Current U.S. GAAP would be reviewed, modified, and developed into a comprehensive and self-contained set of accounting standards for private companies.
- This approach contemplates a major overhaul project to review and significantly streamline current U.S. GAAP, as well as ongoing activities to update but keep simplified (similar to what the IASB and the Canadian AcSB will be doing with their respective private company standards).
- This model contemplate the need to first create a conceptual framework for private companies that would serve as a yardstick for making streamlining and other simplification decisions. Such a framework would be modest (approximately on the level of the "Concepts and Pervasive Principles" chapter that the IASB put into the IFRS for SMEs document).

Model 5 – Separate, Standalone GAAP from the Ground up Based on New Framework

- This model is focused solely on the private company sector and begins with the creation of a new private company conceptual framework based on private company user needs. As opposed to the private company framework described in Models 2–4, which could be described as a "differential framework," the framework would be from the ground up, entail a major project to create, and could be significantly different from the current GAAP conceptual framework (including revisions currently being contemplated by the FASB and IASB). The model framework suggested in the draft white paper released by FEI's Committee on Private Companies-Standards (the Committee) is an example of this type of framework.
- A comprehensive set of standards would be developed based on this new framework and would then constitute a separate, self contained set of standards for use by private companies.

Model 6 – Unmodified IFRS for SMEs

- This models would use IFRS for SMEs as it exists today
- IFRS for SMEs, as promulgated by the IASB, is not intended for entities that have public accountability (e.g., financial institutions).
    - Part of a possible recommendation of IFRS for SMEs could be a recommendation about whether IFRS for SMEs should be permitted to be used

by private companies with public accountability. (However, if used by such entities, they would not technically be able to refer to such standards as IFRS for SMEs.)

- IFRS for SMEs includes a group of Concepts and Pervasive Principles that serve as a framework for the simplifications made from full IFRS.

Model 7 – IFRS for SMEs Customized ("Americanized") for U.S. Private Companies

- The IFRS for SMEs standards would be tailored to suit the needs of private company stakeholders in the U.S.
- This model contemplates an initial project to review and modify IFRS for SMEs as appropriate, possibly significantly. (However, depending on the nature and extent of the modifications, we might not actually be able to refer to the resulting standards as IFRS for SMEs.)
- Ongoing decisions would be required to elect to accept IASB revisions to the SME document verbatim or elect to modify them for U.S. private companies.

"Blue-Ribbon" Panel on Standard Setting for Private Companies Fourth Meeting (October 8, 2010): Discussion of Standard-Setting Models and Structures (cont'd), Recommendations

In this meeting, the "Blue-Ribbon" Panel (the Panel) will continue its discussion and debate on alternatives to the current standard-setting system. At its July 19, 2010 meeting, there was wide agreement among Panel members that:

- The status quo is unacceptable
- U.S. private companies should not be leading the charge, *en masse*, to an IFRS-based set of standards in advance of a potential move by U.S. public companies

Accordingly, the Panel asked staff to make refinements to the following set of U.S. GAAP-based standard-setting models discussed at the July 19 meeting:

Model 2 – GAAP with exceptions for private companies

Model 3 – Baseline GAAP with add-ons for public companies

Model 4 – Separate, standalone GAAP for private companies

For Models 2 and 4, the staff also outlined two structural variations, one featuring a **restructured FASB** (Models **2A** and **4A**) and the other featuring a **separate private company board** (Models **2B** and **4B**). Because of the nature of Model 3, only a version with a single standard-setting board for both public and private companies (a restructured FASB) is feasible, so only one refined version of that model has been outlined. The outline of the five models is contained in the pages that follow.

After discussing a summary of responses received in connection with the Panel's call for written public submissions—with a focus on any new information—the Panel will proceed with the discussion and debate of the models. The Panel's aim will be to reach a substantial consensus among Panel members as to which model to recommend to the FAF Board of Trustees as being in the best long-term interest of users of financial statements of U.S. private companies within the broader context of the overall U.S. financial reporting system.

Because the models represent points along a continuum of possible models, the Panel could recommend a hybrid model. And, because the models will take a period of time to fully achieve, with the length of time varying somewhat among the models, the Panel could recommend an evolutionary sequence of models, and/or some additional shorter-term actions by the FAF and/or the FASB.

Blue-Ribbon Panel
Model Outline

Based on what we heard at the last meeting, the staff has narrowed the alternatives to three possible models, with structural variations for two of those models, to bring forward for discussion at the October 8th meeting. As with the first round of models and structures, the models and structural variations outlined here are meant simply as a starting point for discussion. The model that the Panel ultimately homes in on may actually combine features of more than one of the models, or the Panel might recommend something in-between models. Please also note that, in this round of models, the staff has avoided speculating within the models about what recognition, measurement, disclosure, or presentation differences could occur, since the standard setter will ultimately determine those differences.

In reviewing the models, the Panel should consider what short-term and long-term changes may need to be made to be able ultimately to achieve the respective models. The most effective approach to accomplish the desired end-state model could well be a succession (evolution) of models.

Overview of Models and Structures

In the pages that follow, we present the following models/structures:

Model 2A – GAAP with exceptions for private companies (enhanced) with restructured FASB Board

Model 2B – GAAP with exceptions for private companies (enhanced) with separate private company standards board

Model 3A – Baseline GAAP with add-ons for public companies with restructured FASB Board

Model 4A – Separate, standalone GAAP for private companies with restructured FASB Board

Model 4B – Separate, standalone GAAP for private companies with separate private company standards board

STRUCTURES	MODELS: U.S. GAAP-Based		
	2 GAAP with exceptions for private companies, enhancements to current model	**3 Baseline GAAP with add-ons for public companies**	**4 Separate, standalone GAAP for private companies**
A) Restructured FASB Board	**MODEL 2A** Description: • Current U.S. GAAP (the Codification) would be used by all companies and continue to be improved as necessary through an exception-based standard-setting process, with specific enhancements as discussed below. A restructured FASB would act as the standard setter. Framework: • The current conceptual framework would be examined and augmented as necessary to include a differential framework, which would serve as a basis for making decisions about what is appropriate for private company exclusions.	**MODEL 3A** Description: • Current U.S. GAAP (the Codification) would be reviewed and reorganized into a baseline GAAP for all entities, based on user needs, and with additional GAAP requirements ("add-ons") for public companies, and continue to be improved as necessary through a standard-setting process based on that split. A restructured FASB would act as the standard setter. Framework: • The current conceptual framework would be examined and augmented as necessary to include a differential framework, which would serve as a basis for making decisions about what is the appropriate baseline for all companies and what are appropriate as add-ons for public companies.	**MODEL 4A** Description: • Current U.S. GAAP (the Codification) would be reviewed, modified, and developed into a simplified, self-contained set of accounting standards for private companies, which would then be improved as necessary on a periodic basis. A restructured FASB would act as the standard setter. Framework: • The current conceptual framework would be examined and augmented as necessary to include a differential framework, which would serve as a basis for making streamlining and other simplification decisions.

	MODELS: U.S. GAAP-Based		
STRUC TURES	**2 GAAP with exceptions for private companies, enhancements to current model**	**3 Baseline GAAP with add-ons for public companies**	**4 Separate, standalone GAAP for private companies**
	MODEL 2A—continued Boards: • In the expansion of the FASB back to seven members and perhaps ultimately more, the FAF should assess the FASB's composition and adjust as necessary to include sufficient private company experience and perspective. In connection with this, the FAF should consider appointing one or more members whose experience is primarily with the private company sector. • Assess and adjust the FAF's composition as necessary to ensure its oversight function has the appropriate private company experience and perspective. • Assess and adjust Financial Accounting Standards Advisory Council (FASAC) composition as necessary to ensure its advisory function has the appropriate private company experience and perspective. (FASAC is FASB's primary advisory group.)	**MODEL 3A—continued** Boards: • In the expansion of the FASB back to seven members and perhaps ultimately more, the FAF should assess the FASB's composition and adjust as necessary to include sufficient private company experience and perspective. In connection with this, the FAF should consider appointing one or more members whose experience is primarily with the private company sector. • Assess and adjust the FAF's composition as necessary to ensure its oversight function has the appropriate private company experience and perspective. • Assess and adjust Financial Accounting Standards Advisory Council (FASAC) composition as necessary to ensure its advisory function has the appropriate private company experience and perspective. (FASAC is FASB's primary advisory group.)	**MODEL 4A—continued** Boards: • In the expansion of the FASB back to seven members and perhaps ultimately more, the FAF should assess the FASB's composition and adjust as necessary to include sufficient private company experience and perspective. In connection with this, the FAF should consider appointing one or more members whose experience is primarily with the private company sector. • Assess and adjust the FAF's composition as necessary to ensure its oversight function has the appropriate private company experience and perspective. • Assess and adjust Financial Accounting Standards Advisory Council (FASAC) composition as necessary to ensure its advisory function has the appropriate private company experience and perspective. (FASAC is FASB's primary advisory group.)

	MODELS: U.S. GAAP-Based		
STRUCTURES	**2 GAAP with exceptions for private companies, enhancements to current model**	**3 Baseline GAAP with add-ons for public companies**	**4 Separate, standalone GAAP for private companies**
B) New Separate Private Company Standards Board	**<u>MODEL 2B</u>** Description: • Current U.S. GAAP (the Codification) would be used by all companies and continue to be improved as necessary through an exception-based standard-setting process, with specific enhancements as discussed below. This model would contemplate a new, separate private company standards board under the FAF—see board section. Framework: • The current conceptual framework would be examined and augmented as necessary to include a differential framework, which would serve as a basis for making decisions about what is appropriate for private company exclusions.	A separate, private company standard-setting board under a baseline GAAP model would not be feasible.	**<u>MODEL 4B</u>** Description: • Current U.S. GAAP would be reviewed, modified and developed into a simplified and self-contained set of accounting standards for private companies, which would then be improved as necessary on a periodic basis. This model would contemplate a new, separate private company standards board under the FAF—see board section. Framework: • The current conceptual framework would be examined and augmented as necessary to include a differential framework, which would serve as a basis for making streamlining and other simplification decisions. • Alternatively, a separate, robust conceptual framework specifically geared to private companies could be created to help the board develop a "from the ground up" private company GAAP. (This was described as model 5 in the previous model write-up.)

	MODELS: U.S. GAAP-Based		
STRUC TURES	**2 GAAP with exceptions for private companies, enhancements to current model**	**3 Baseline GAAP with add-ons for public companies**	**4 Separate, standalone GAAP for private companies**
	MODEL 2B—continued Boards: • Separate private company standard-setting board that follows the work of the FASB. The private company board would be empowered to review both proposed standards and existing standards that the FASB sets and determine whether to make exceptions or modifications for private companies. • Assess and adjust the FAF's composition as necessary to ensure its oversight function has the appropriate private company experience and perspective. • The new standard-setting board would need new primary advisory group in lieu of FASAC.		**MODEL 4B—continued** Boards: • The board under this model would be the standard setter for the separate, standalone GAAP for private companies. • Assess and adjust the FAF's composition as necessary to ensure its oversight function has the appropriate private company experience and perspective. • The new standard-setting board would need new primary advisory group in lieu of FASAC.

Attachment 2

The Financial Accounting Foundation Board of Trustees

Request for Comment

Plan to Establish the Private Company Standards Improvement Council

October 4, 2011

Norwalk, Connecticut

Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116
www.accountingfoundation.org

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EXECUTIVE SUMMARY OF THE FAF BOARD OF TRUSTEES PLAN TO ESTABLISH THE PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL

As a result of outreach to external stakeholders, study, and deliberation, the Financial Accounting Foundation (FAF) Board of Trustees plans to establish a "Private Company Standards Improvement Council" (PCSIC) to improve the standard-setting process for private companies. The Trustees seek public comment on the plan, as outlined in this document, until January 14, 2012. The Trustees will make a final decision on the plan following the end of the comment period.

Authority and Critical Responsibilities

The PCSIC would determine whether exceptions or modifications to nongovernmental US Generally Accepted Accounting Principles (US GAAP) are required to address the needs of users of private company financial statements. Jointly with the Financial Accounting Standards Board (FASB), which sets accounting standards for public and private companies and not-for-profit organizations in the United States, the PCSIC would develop criteria for determining whether and when exceptions or modifications to US GAAP are warranted for private companies. Based on those criteria, the PCSIC would conduct a review of existing US GAAP and identify standards that require reconsideration and vote on possible exceptions or modifications for private companies. Any proposed changes to existing US GAAP would be subject to ratification by the FASB and undergo thorough due process, including public comment. The PCSIC would be overseen by the FAF Board of Trustees.

Formation and Membership

The PCSIC would comprise a chairman and 11 to 15 members. The PCSIC chairman, who would be selected and appointed by the Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. PCSIC members also would be selected and appointed by the Trustees. Members would include users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements.

Nominations for membership on the PCSIC would be sought from a broad array of interested stakeholders and stakeholder groups. Members would be appointed for a three-year term and could be reappointed, based on input from the PCSIC chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCSIC. FASB staff would be assigned to support and work closely with the PCSIC on outreach and research projects to leverage the FASB's resources and to avoid duplication of efforts.

Meetings

The PCSIC would meet four to six times per year. The meetings would be held at the FASB's offices in Norwalk, Connecticut, with the intention that all FASB members would participate. PCSIC meetings would be webcast and open to the public, except for discussions of an administrative nature, which could be closed.

Oversight

During the first three years of operations, the PCSIC would provide periodic in-person reports to a newly created, special-purpose Private Company Review Committee of the FAF Board of Trustees. The PCSIC also would provide quarterly written reports to the full FAF Board of Trustees. Following the three-year period, the oversight responsibilities of the Private Company Review Committee would be transferred to the existing Standard-Setting Process Oversight Committee of the Trustees. Quarterly written reports by the PCSIC to the Trustees also would continue following that transition. In addition to this oversight, the Trustees would conduct an overall assessment of the PCSIC at the end of the three-year period to determine whether its mission is being met and whether further changes to the standard-setting process for private companies would be warranted.

The planned PCSIC best addresses constituent concerns

The FASB has made recent, substantive changes to the manner in which it engages with private company stakeholders, and has demonstrated a greater operational and structural commitment to further address these issues. However, constituents continue to express concerns about private company needs.

In addressing these concerns, the Trustees considered a range of options, including:

1. Creating a new, autonomous, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel on Standard Setting for Private Companies
2. Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by the FASB and submitted to the public for comment
3. Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB
4. Continuing to monitor the FASB's existing and ongoing initiatives to better serve the needs and interests of private companies.

In deciding on the second option, the Trustees concluded that creating a separate standard-setting board for private companies would likely lead to the establishment of two separate sets of US accounting standards—a so-called "little GAAP" for private companies and a "big GAAP" for public companies, which is not a desired outcome.

Concerns communicated to the Trustees about the complexity and relevance of US GAAP to private companies appear to involve a small but key group of standards. The Trustees concluded that improvements should focus on those standards first.

In addition, the Trustees concluded that the FASB should address—and is committed to addressing—complexity, relevance, and cost-benefit issues more broadly, as other constituents, in addition to private companies, have expressed similar concerns.

Plan to Establish the Private Company Standards Improvement Council

BACKGROUND

Since it was created in 1972, the Financial Accounting Foundation (FAF) has committed itself to the challenging mission of balancing two critical, but sometimes conflicting, objectives:

- Ensuring that its standard-setting bodies (the Financial Accounting Standards Board and the Governmental Accounting Standards Board) develop high-quality accounting standards that provide investors, lenders, and other users of financial statements with clear, comparable, and decision-useful financial information about a wide variety of companies, not-for-profit organizations, governmental bodies, and other entities
- Ensuring that those standards also take into account the individual needs and circumstances of the constituents of the disparate entities that issue financial statements under US Generally Accepted Accounting Principles (US GAAP), specifically related to relevance, complexity, and costs versus benefits.

The ongoing effort to reconcile those two goals has continued for nearly 40 years. One of the greatest challenges has involved the needs of nonpublic entities, including privately held companies and not-for-profit organizations. Over the years, no fewer than 12 separate reports, studies, or formal recommendations on issues related to private companies were produced, with varying degrees of impact and success.

In the past ten years, as businesses and business transactions have become increasingly global and complex, some have argued that the needs of public company and private company users of financial statements have moved further apart, even as the demands of capital markets have made it more important to maintain the comparability of financial reporting among disparate companies and organizations.

Focus on Private Company Issues

In 2006, the Financial Accounting Standards Board (FASB) created the Private Company Financial Reporting Committee (PCFRC) in an effort to further improve its ability to incorporate the views of private company constituents in its standard-setting process. Comprised of a chairman and 12 members representing nonpublic business entities, regardless of size, the mission of the PCFRC was to provide recommendations to the FASB on issues related to standard setting for private companies and to focus on how standard setting affects day-to-day technical activities at private companies.

Three years later, the FAF Board of Trustees undertook a nationwide "listening tour," during which groups of Trustees and senior FAF leadership met with diverse constituents to hear and understand their views on the independent standard-setting process and key issues affecting financial reporting.

During the tour, the Trustees learned that many constituents continued to be concerned about the cost and complexity of standards for nonpublic entities and, frankly, were not satisfied with the results of the collaboration between the FASB and the PCFRC. Some constituents believed that in the PCFRC's early years, the FASB did not participate fully in its processes or pay sufficient attention to its recommendations. In addition, they said the PCFRC was not initially effective in engaging with the FASB and advocating on behalf of its constituents. A major issue cited by constituents was that the FASB and the PCFRC did not develop and agree upon a framework for considering exceptions or modifications to US GAAP for private companies.

2006	2009	2010	2011 January	2011 March	2011 October
FASB creates Private Company Financial Reporting Committee	FAF undertakes nationwide "listening tour"	FAF works with AICPA and NASBA to create Blue-Ribbon Panel on Standard Setting for Private Companies	Blue-Ribbon Panel submits report to FAF Trustees	FAF creates Trustee Working Group to consider standard setting for nonpublic entities	FAF seeks public comment on plan to create Private Company Standards Improve-ment Council

Blue-Ribbon Panel on Standard Setting for Private Companies

As a result of these concerns, the Trustees collaborated with the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to create the Blue-Ribbon Panel on Standard Setting for Private Companies. The panel was charged with studying the needs of users of private company financial statements and making recommendations to the Trustees about how the standard-setting process can best meet those needs.

Separately, the FASB took additional steps to improve the standard-setting process for private companies. The FASB, for example, assembled a team of professionals focused on formally representing and soliciting input from private companies; established a series of roundtables on private company issues; undertook efforts to develop a framework for identifying whether and when differences in standards are warranted for private entities; increased education efforts to help private company constituents become informed about changes in US GAAP; created a dedicated electronic portal to make it easier for private company stakeholders to access information; developed an electronic feedback forum to enable private company stakeholders to more easily comment on the FASB proposals; and specifically addressed private company concerns in a series of standard-setting decisions related to goodwill impairment, revenue recognition, and financial instruments.

In January 2011, the Blue-Ribbon Panel submitted a report to the Trustees with its recommendations, including, among others, the creation of a new, separate, and authoritative standard-setting board (under the oversight of the Trustees) that would establish exceptions or modifications to US GAAP for private companies.

The Working Group

In March 2011, the FAF appointed several Trustees and senior FAF staff members to a "Working Group" to further consider standard setting for nonpublic entities.

The Working Group received significant input from users, practitioners, and preparers of private company and not-for-profit financial statements. The Working Group also reviewed the current process by which the FASB considers the concerns of private companies and not-for-profit organizations. Specifically, the Working Group conducted a series of meetings with stakeholders, including meetings with representatives of large, mid-market, and small CPA firms, all with significant practices serving private companies and not-for-profit organizations.

The Working Group also met with leading members of the academic community who have reviewed and, in some cases, undertaken significant research on issues relating to private company and not-for-profit financial reporting. Representatives of the Working Group also participated in discussions with the FASB's advisory groups, including the Financial Accounting Standards Advisory Council (FASAC), the PCFRC, the Not-for-Profit Advisory Committee (NAC), and the Small Business Advisory Committee (SBAC).

Representatives of the Working Group had meetings with lenders, investors, regulators, donors, and others. Also, the Working Group considered the content of more than 2,800 unsolicited letters, most of which made similar points in support of the Blue-Ribbon Panel's recommendation for a separate standard-setting board for private companies.

KEY CONCLUSIONS

As a result of this outreach and their analysis of the Blue-Ribbon Panel's report, the Trustees reached these key conclusions:

- Despite significant progress made in recent years by the FASB and the PCFRC in addressing the needs of the constituents of private company financial reporting in the standard-setting process,[1] their efforts stopped short of achieving all of their intended objectives. In other words, private company needs were not addressed as thoroughly or directly as had been intended.
- A new body with increased authority and scope—the Private Company Standards Improvement Council (PCSIC)—should replace the PCFRC (which would be disbanded) as part of a new structure to ensure that the needs of private companies are appropriately addressed in the standard-setting process.
- As an essential element in creating the new structure, the PCSIC, jointly with the FASB, should be responsible for developing specific criteria for determining whether and when exceptions or modifications to US GAAP for private companies are warranted. Those criteria would be subject to public comment.
- Using the new criteria, the PCSIC should develop, deliberate, and formally vote on specific exceptions or modifications to US GAAP. PCSIC meetings should be attended by all FASB members and the conclusions of PCSIC deliberations should be subject to FASB ratification. Those ratified exceptions or modifications should then be exposed for public comment. At the conclusion of the public comment process, the PCSIC should publicly redeliberate in meetings attended by the FASB the proposed exceptions or modifications, vote on final changes, and submit them to the FASB for final ratification.
- The FAF should create a special-purpose committee of Trustees, the Private Company Review Committee, to oversee the activities of the PCSIC and its interactions with the FASB during a three-year transition period. (Following the transition, that responsibility should be assumed by the FAF Standard-Setting Process Oversight Committee.)
- The Private Company Review Committee should hold both the PCSIC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues and input in the standard-setting process. The Review Committee should be chaired by a Trustee, appointed by the Board of Trustees, who has had substantial experience with and exposure to private companies during his or her career. The Committee should include among its members Trustees who also have significant experience with private company accounting issues.
- The needs of the users of not-for-profit financial statements differ substantially from those of private company financial statements. In fact, not-for-profits have many characteristics that are more in common with publicly traded companies than with privately held companies, particularly related to the variety and diversity of their user constituents. Further, the FASB recently established an advisory group, the Not-for-Profit Advisory Committee (NAC) to consider issues specifically related to not-for-profit organizations. Accordingly, the Trustees have limited the current plan to addressing the concerns of private companies.

[1] As described in detail in the appendix.

THE "PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL"

Because of the outreach and analysis outlined above, the Trustees plan to establish a Private Company Standards Improvement Council (PCSIC), under the oversight of the Trustees, to improve the standard-setting process for private companies. The plan, following a period of public comment, will be subject to further discussion and deliberation by the Trustees, including consideration of comments received, before it becomes final.

Authority and Critical Responsibilities

The PCSIC would determine whether exceptions or modifications to US GAAP are required to address the needs of the users of private company financial statements.

In that regard, the PCSIC will have the following critical responsibilities:

- The PCSIC, jointly with the FASB, would develop a set of specific criteria to determine whether and when exceptions or modifications to US GAAP are warranted for private companies.
- Based on those criteria, the PCSIC would identify aspects of existing US GAAP that its members believe require exceptions or modifications for private companies, based on the criteria it developed.
- For those areas of US GAAP identified through this process that are not already under active reconsideration on the FASB's technical agenda, the PCSIC would obtain input from a broad array of constituents and then deliberate and vote, in meetings attended by FASB members, on specific modifications to those standards to ensure that they meet the needs of users of private company financial statements.
- Any proposed changes to existing US GAAP would be subject to ratification by the FASB and thorough due process, including public comment.
- Following the public comment period, the PCSIC would publicly redeliberate the proposed exceptions or modifications at meetings attended by the FASB members and then vote on final changes. Changes would have to be approved by a supermajority (two-thirds) of PCSIC members. Following an affirmative vote, the final changes would be forwarded to the FASB for final ratification.
- For items under active consideration on the FASB's technical agenda, the PCSIC would serve as the primary source of advice on appropriate treatment for private companies by working actively and closely with FASB members and staff, and providing advice for consideration by the FASB members in their deliberations. In addition, the PCSIC would have the ability to vote to take a position on the appropriate treatment for private companies related to issues under active consideration by the FASB.

Formation and Membership

The chairman of the PCSIC, who would be selected and appointed by the Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. The Trustees believe that appointing a FASB member as chairman and having FASB members attend meetings of the PCSIC would establish a strong and direct link between the two bodies and ensure that private company issues raised by the PCSIC would receive a thorough, detailed, and considered hearing by the FASB. The PCSIC chairman would be a voting member of the Council; other FASB members would not vote but would be expected to add perspective to the issues being deliberated.

The PCSIC would comprise 11 to 15 members (in addition to the chairman), including users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements.

Members of the PCSIC would be selected and appointed by the Trustees. Nominations for membership on the PCSIC would be sought from a broad array of interested constituents and stakeholder groups. Members would be appointed for a three-year term and may be reappointed, based on input from the PCSIC chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCSIC.

FASB staff will be assigned to support and work closely with the PCSIC on outreach and research projects in order to leverage the FASB's resources and to avoid duplication of efforts.

Meetings

PCSIC would schedule meetings four to six times per year. The meetings would be held at the FASB's offices in Norwalk, Connecticut, with the intention that all FASB members would attend and participate. Participation of FASB members would facilitate their understanding of PCSIC member views and enable a more efficient ratification process.

PCSIC meetings would be webcast and open to the public, except for discussions of an administrative nature, which could be closed.

Oversight

The PCSIC will provide periodic in-person reports to the FAF Private Company Review Committee during its first three years of operation, as well as quarterly written reports to the full Board of Trustees. Following the three-year transition, the PCSIC will provide in-person reports to the FAF Standard-Setting Process Oversight Committee and continue to provide quarterly written reports to the full Board of Trustees.

The FAF's post-implementation review (PIR) process, as currently designed, includes engagement with and input from private companies. The PIR process will be further enhanced to include the input of the PCSIC and the post-implementation evaluation of changes made to US GAAP as a result of the PCSIC's work. The objective of this evaluation is to consider whether the resulting standards are achieving the intended objectives. In addition to this oversight, the FAF Trustees will conduct an overall assessment of the PCSIC in three years to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted.

CONSIDERATIONS

In developing this proposal, the Trustees considered a range of options, including:

1. Creating an autonomous, new, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel
2. Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed modifications that would then be subject to ratification by the FASB and submitted to the public for comment
3. Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB
4. Continuing to monitor the FASB's existing and ongoing initiatives to better serve the needs and interests of private companies.

In deciding on the second option, the Trustees observed the following:

- Establishing two sets of US GAAP (informally described as "big GAAP" and "little GAAP") is not a desired outcome. Creation of a separate standard-setting board would likely lead to that outcome over time.
- Concerns communicated to the Trustees about the complexity and relevance of US GAAP to private companies appear to involve a small but key group of standards. Therefore, improvements should focus on those standards first.
- The FASB should address—and is committed to addressing—complexity, relevance, and cost-benefit issues more broadly, as other constituents, in addition to private companies, have expressed similar concerns.
- The FASB has made recent, substantive changes to how it engages with private company constituents, and has demonstrated a greater operational and structural commitment to further address these issues.[2] The Trustees believe it is appropriate to allow a period of time for those efforts to mature and are monitoring those efforts closely.

[2]As described in detail in the appendix.

- The PCFRC has not been wholly successful in achieving its mission, in part because in its early years, the FASB did not participate fully in its processes or pay sufficient attention to its recommendations. In addition, the PCFRC was not initially effective in engaging with the FASB and advocating on behalf of its constituents. Other factors contributing to the shortcomings of the partnership were: (1) the FASB and the PCFRC did not develop and agree upon a framework for considering exceptions or modifications and exceptions to US GAAP for private companies and (2) the two organizations did not integrate their administrative processes in support of their common objective. Based on their outreach and analysis, the Trustees believe that meaningful change in the standard-setting process for private companies can occur only if a common understanding of mutual objectives for the FASB and private company constituents is embedded in both the structure and processes of the FASB.

COMMON CONSTITUENT CONCERNS

As noted above, the Working Group in the course of its outreach efforts received significant input from users, practitioners, and preparers of private company financial statements. That input was instrumental in helping the Working Group frame and consider many of the issues discussed in this paper.

Summarized below are the issues and concerns most commonly raised by constituents in meetings with Trustees and representatives of the Working Group during the outreach process:

- While some practitioners and preparers expressed support for the formation of a separate board as recommended by the Blue-Ribbon Panel, the view was not widely held. In fact, many of those who initially spoke in support of the creation of a new authoritative board, moved away from that view after hearing concerns of others. Such concerns included the likelihood of confusion, the lack of acceptance of new standards by banks and sureties who expect to see US GAAP financial statements, the establishment of a bifurcated profession, a recognition that the formation of a new board and the promulgation of new rules would take years, and a fear that financial statements prepared in accordance to "little GAAP" would be viewed as inferior to "big GAAP" financial statements.
- Many constituents noted that "complexity" in financial reporting is, in many ways, the real problem that concerns the private company community. Complexity, however, affects all entities whether public or private, large or small. There is a general belief that the FASB does not do a sufficient job undertaking a cost-benefit analysis before issuing standards. Nor has the FASB performed systematic post-implementation reviews to determine whether the standards have achieved their goals. There is a concern that GAAP financial statements sometimes do not properly capture the economics of transactions and the standards are not "faithful to the transaction" and do not reflect the "real economic situation." Nonetheless, there was an acknowledgement that complex financial transactions often require complex accounting.
- A number of constituents believe that the FASB historically has not been attentive to concerns of private companies. Yet, there also was a recognition that private company

constituents do not actively participate in the standard-setting process. Several participants suggested that the FASB should develop methods to more easily facilitate private company input (recognizing that preparing comment letters can be difficult and time consuming for resource-constrained enterprises).

- Despite these criticisms, most participants believe that recent changes at the FASB demonstrate a significant move in the right direction. There are concerns, however, about whether this improvement is sustainable and permanent or dependent on the current board and its interests. To address these concerns, the Trustees will continue to monitor the FASB's efforts and will hold both the FASB and the PCSIC accountable for ensuring that the concerns of private company stakeholders are addressed.
- There also is consensus that between six and ten current standards cause most, if not all, of the problems for private companies.
- When speaking with users of private company financial statements, representatives of the Working Group heard that US GAAP financial statements provide a useful and sound starting point for underwriting and investment decision making. In fact, some said that they are "critical." But, since lenders and investors have significant access to management and outside accountants, financial statements are neither the only nor the best source of information.

The Trustees also acknowledge receipt of more than 2,800 unsolicited letters, most of which made similar points in support of the Blue-Ribbon Panel's recommendation for a separate standard-setting board for private companies.

REQUEST FOR COMMENTS

The FAF Board of Trustees invites individuals and organizations to send written comments on the "Plan to Establish the Private Company Standards Improvement Council."

The Trustees request that responses from those wishing to comment on the plan be received in writing by January 14, 2012. Interested parties should submit their comments by email to PrivateCompanyPlan@f-a-f.org. Those without email should send their comments to "Private Company Plan," FAF, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Please do not send responses by fax.

All comments received constitute 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 plan is available on the FAF's website.

PUBLIC ROUNDTABLE MEETINGS

The FAF Board of Trustees plans to hold public roundtable meetings after the end of the comment period to hear the views of, and obtain information from, interested parties regarding the "Plan to Establish the Private Company Standards Improvement Council." The Trustees plan to seek participants for the meetings that represent a wide variety of constituents (including users, preparers, auditors, and others) to ensure that it receives broad input. The schedule, location, and other details of the process for participating in these roundtables will be announced in the coming weeks by the Trustees on the FAF website (www.accountingfoundation.org).

APPENDIX: FASB INITIATIVES TO IMPROVE THE STANDARD-SETTING PROCESS FOR PRIVATE COMPANIES

As noted earlier, the Trustees concluded that the FASB has made considerable progress in addressing private company concerns in the standard-setting process, a view that was confirmed by many of the constituents with whom members of the Working Group spoke. Some constituents, however, were concerned that this improvement may not prove to be sustainable and permanent, depending on the composition of future boards and their members' interests. To address these concerns, the Trustees will continue to monitor the FASB's efforts and will hold both the FASB and the PCSIC accountable for ensuring that the concerns of private company stakeholders are addressed.

The following appendix outlines the manner in which the FASB is addressing private company issues:

The FASB has increased its effort to understand and address the needs of the users and preparers of private company financial statements.

- The FASB released an initial staff analysis (*FASB in Focus*—July 11, 2011) identifying six specific ways in which use of financial statements for private companies differs from that of public companies.
- FASB staff is working closely with its Private Company Resource Group (PCRG), a working group, to make recommendations on developing a set of criteria that will assist the FASB in deciding whether and when to adopt exceptions or modifications to US GAAP for private companies.
- While efforts to develop these criteria are proceeding, FASB staff is working to evaluate potential exceptions or modifications for private companies for the FASB's consideration, in current standard-setting projects.

The FASB has put in place the infrastructure and processes required to develop, field test, and implement accounting standards for private companies.

- The FASB has built a team of professionals dedicated to soliciting the input of private company stakeholders in all standard-setting projects.
- The FASB's due process incorporates feedback and opinions from these constituents.

The FASB has been increasingly responsive to criticism of the manner in which the FASB handled private company issues in the past.

- The FASB has established a series of roundtables during which private company stakeholders share their views directly with FASB members.
- For major standard-setting projects, the FASB has created issue-specific roundtables for private company stakeholders.
- FASB members now regularly attend meetings of the PCFRC.

- The FASB created a dedicated electronic portal to make it easier for private company stakeholders to access information that pertains to their needs.
- The FASB developed the Electronic Constituent Feedback Forum to make it easier for private company stakeholders to offer comments on the FASB proposals.
- FASB staff has developed a resource list of private company contacts that can be consulted on an ad hoc basis.
- The FASB has increased the transparency of its decision-making process on US GAAP related to private companies, including increased use of video webcasting of its meetings.

The FASB is increasingly willing to take action on private company concerns as part of the standard-setting process. For example:

- In response to recommendations from private company financial statement preparers, the Board completed a project (Testing Goodwill for Impairment) to reduce the cost and complexity of testing goodwill for impairment.
- In its revenue recognition project, the FASB has tentatively decided to exempt private companies from certain new disclosure requirements.
- In its financial instruments projects, the FASB has proposed a measurement exemption for nonmarketable equity securities.
- For many recent projects, the FASB instituted one-year deferrals for nonpublic entities to enable them to implement new standards more effectively and efficiently.

The FASB has undertaken a series of new educational efforts intended to provide more information to stakeholders about their private company initiatives and issues.

- In June 2011, the FASB held its first FASB Update webcast geared specifically to nonpublic entities—including private companies—for CPE credit and has scheduled the next semiannual webcast for December 2011.
- The FASB provides plain-English executive summaries (*FASB in Focus* documents) and brief podcasts for all new proposed and final ASUs, as well as educational webcasts for major projects.
- FASB Board and staff members participate, as presenters and panelists, in many educational conferences and meetings geared primarily toward the private company sector, at both national and local levels.

October 4, 2011

TO: State Boards of Accountancy

FROM: NASBA Executive Committee

RE: Financial Accounting Foundation’s Proposal

Today, the Financial Accounting Foundation (FAF) issued its "Proposal" regarding the important topic of accounting standard setting for private entities (attached). You will note that it does not address "Not for Profit" entities, as was originally expected. It appears the real message from the Blue Ribbon Panel process and report has been both heard and addressed with this proposal.

The FAF proposal now enters a 100-day comment period, ending in mid-January 2012, which, as we expect, will gather considerable commentary. Today, NASBA has issued a press release commending the FAF on its process in managing the issue and in soliciting input from a wide range of stakeholders. We expect and encourage the State Boards of Accountancy to deliberate and comment on the proposals of the FAF. Highlights of the FAF proposal are as follows:

1. Establishment of a "Private Company Accounting Standards Improvement Council" (Council) as the dedicated private entity work stream.
2. FASB will remain as the sole non-governmental accounting standard setting body under the FAF.
3. As the key adviser to the FASB, the new Council will develop a conceptual framework for private entities' accounting standards, make decisions subject to FASB approval and will be chaired by a voting FASB member.
4. The Council will have about 11-15 members representing private entity stakeholders and will meet at FASB headquarters in Norwalk, Conn.
5. FAF trustees will have direct oversight of the Council to assure the FAF's strategies are being appropriately addressed.

As is noted in the proposal, the FAF drew its conclusions from a wide range of inputs over the past two years, including the deliberations and January 31, 2011 report of the "Blue Ribbon Panel" (BRP) established by the FAF and co-sponsored by FAF, AICPA and NASBA. Billy Atkinson served as NASBA's representative on the BRP and has been our spokesperson for its many deliberations, including those resulting in the "Minority Position" contained in the final BRP report.

Our position in that report was simple. We agreed completely with the BRP members that changes are needed in U.S. accounting standard setting. Such changes must address the increasing complexity of accounting standards, the relevance of financial information to users and the increasing costs to comply with today's accounting standards. It has been our consistent view that complex and irrelevant accounting standards must be reined in for both private and public entities. A number of suggested actions to mitigate or reverse today's situation were highlighted in the BRP report. However, we disagreed with the BRP majority view that a separate autonomous private entity accounting standard setting board should be created. Our rationale was included in the minority's conclusions contained in the BRP report, as well as our many presentations to the State Boards at NASBA's Annual and Regional Meetings this past year, and in several meetings with State Boards directly.

We have continued to believe that a separate autonomous standard setting board would lead to differential accounting standards and measurement based solely on an entity's capital structure, rather than the economics of underlying transactions. Further, our view has been that while differences in financial reporting and disclosure may be reasonable for private entities, differences in measurement should be minimal, rare and accompanied by a conceptual framework by a dedicated private entity accounting standards work stream. An underlying conceptual framework for private company accounting standard setting is needed to avoid ad hoc changes. The FAF's proposal does that.

Our expressed concern has been that the FAF must make this issue an active and visible strategy of its trustees and the standard setting board that it appoints. Such standards development must be supported by a vibrant, dedicated private entity work stream within the FASB, together with FASB board member recognition of the importance of this sector. Thus, FAF's monitoring of a single FASB board structure, with appropriate safeguards in place, should lead to needed change.

This FAF proposal should now signal a change in the FASB's standard setting approach to that of more relevance to stakeholders and a principled approach to dealing with complex structured arrangements.

Attachment 5

Press Release

Statement from Barry Melancon, AICPA President and CEO, and Paul Stahlin, AICPA Chair, Addressing FAF's Failure to Create an Independent Standard Setting Board for Private Company Financial Reporting

Published October 04, 2011

NEW YORK (Oct. 4) - We are profoundly disappointed that the Financial Accounting Foundation (FAF) is not proposing to create a new independent board to set differences in U.S. GAAP standards, where appropriate, for privately held companies. This was the cornerstone of the Blue Ribbon Panel on Standard Setting for Private Companies' report. The Panel consisted of a cross-section of leaders from financial reporting constituencies, including lenders, investors, owners, preparers and public accountants.

"Three thousand private company constituents and a majority of the state CPA societies, representing more than a quarter million CPAs, have spoken. They want a separate independent standard setting board and they have sent letters to FAF asking for change," said Barry Melancon, American Institute of Certified Public Accountants president and CEO. "Over the years, FASB's main focus has understandably been on the needs of constituents of publicly traded companies. The pent up frustration we are witnessing by the private company constituency is a direct result of that public company focus and not seeing that differences can be and are appropriate for private companies and their financial statement users."

For many years, the pleas of private companies to have differences in standards for private companies that are more cost effective and relevant for their users have too often been ignored. We understand and appreciate FASB's need to focus on public company issues and emerging capital market concerns. And as we move forward, FASB's focus will need to continue to be on the public market and on the convergence of U.S. Standards with IFRS, which themselves are focused on public companies. This clearly underscores the need for a separate independent board focused solely on the right standards for private company GAAP.

In essence the Panel's report stated: The supermajority view of the BRP members is that the current FASB and even a restructured FASB cannot produce the needed exceptions and modifications to GAAP for private company financial reporting. Those BRP members believe that throughout its history, the FASB has been very heavily geared, in its composition and its processes, toward public companies. As a result, GAAP exceptions and modifications in recognition, measurement and presentation have been too rare and extremely difficult to achieve. Members of a board with authority to set accounting standards for private companies must possess the perspective of those stakeholders, and the FASB cannot be sufficiently restructured or possess enough of the essential private company representation needed to set GAAP differences for private companies.

"Unfortunately, FAF's proposal has failed to accept the views of the many voices of the private company constituency asking for a separate board. We don't think the concerns of smaller private companies can be fully appreciated until there is an independent board dedicated and focused solely on the needs of private companies. Therefore, we will continue to ask our members and others who support more relevant, more cost beneficial standards for private companies to make their voices heard loud and clear that the best answer is an independent private company board," commented Paul Stahlin, AICPA chair.

The Blue Ribbon Panel and its diverse membership recommended the independent board for a reason. Without the addition of a separate board, the goal of true private company financial reporting differences will not be consistently achieved. Unfortunately now nine months after the Panel issued its report and after receiving more than 3,000 letters with 99 percent support for the Panel's recommendations, the FAF has proposed a solution that continues to miss the mark.

AICPA Insights

10/17/2011

Independent Board is Needed for PCGAAP

For quite a while now, decades in fact, the accounting profession has been discussing the problems faced by private companies and the users of their financial statements because of a lack of relevance and unnecessary complexity in too many places in U.S. GAAP. The Blue Ribbon Panel on Standard Setting for Private Companies made recommendations earlier this year that gave us a greater sense of hope that real change was on the way. The Panel, formed by the AICPA, the Financial Accounting Foundation and the National Association of State Boards of Accountancy, came out with two significant recommendations that would permanently change private company financial reporting. One is differences in existing and future GAAP where warranted; the other is an independent board to set those differences. There is general consensus on the former; I want to focus on the latter.

On Oct. 4, FAF released its proposal on creating a new Private Company Standards Improvement Council. While the PCSIC would report into the FAF (through a subgroup of the Board of Trustees) and not the Financial Accounting Standards Board, its decisions would be subject to ratification by the FASB. That is unacceptable to us.

Without an autonomous board with standard-setting authority, we end up with nothing more than a continuation of what we've already had that didn't work. The Private Company Financial Reporting Committee, for example, which is a joint effort of the AICPA and the FASB, didn't get its major recommendations approved by the FASB (I'm referring to FIN 48 and 46R). Yes, the FASB has improved its responsiveness to private company issues lately, after the Panel started its work, but given the history and other pressures on the FASB, we cannot trust that this will be the case in the long run. We need a solution that will last.

Some may read FAF's plan and think the planned council is a new and viable solution to the systemic problems in the current standard-setting process. But a careful analysis shows that is not the case. The proposed process, with FASB veto power at its core, is what we have today.

After FAF issued its proposal, AICPA Chairman of the Board Paul Stahlin, CPA, and I released a statement expressing our profound disappointment in it and pledged to continue the fight. But your help is an important part of winning this battle. We need you and your peers to a greater degree than ever. After almost 40 years of debate, two intense years of discussion with the Panel and then more study by FAF, it is unfortunate that the effort of thousands of you is still needed, but it is.

FAF will pay close attention to the comment letters it receives from private company constituents: preparers, auditors, lenders, investors, regulators and others. Watch this video explaining the situation and send FAF a comment letter using our online resource. It'll take just 30 seconds of your time, but you could be part of historic change. The comment deadline is Jan. 14, 2012.

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CBA Item VII.A.
November 17-18, 2011

Regulation Hearing Regarding Title 16, California Code of Regulations (CCR) Sections 2.8, 9.2, 11, and 11.1 – Accounting Study

Presented by: Matthew Stanley, Legislation/Regulation Analyst
Date: October 24, 2011

Purpose of the Item
Staff are providing the materials pertinent to the public hearing for the proposed rulemaking. The public hearing for this proposal will be held at the California Board of Accountancy's (CBA) November 2011 meeting.

Action Needed
None

Background
At its July 2011 meeting, the CBA directed staff to initiate the rulemaking process to define the 20 units of accounting study required by SB 819 of 2009.

The Notice of Proposed Action was filed with the Office of Administrative Law (OAL) on September 6, 2011 and published on September 16, 2011, thus initiating the required 45-day public comment period. October 31, 2011, will mark the end of the public comment period, and on November 18, 2011, during the CBA meeting, a public hearing will be conducted on the proposed regulation. The following attachments will aid in your preparation for the hearing:

- Notice of Proposed Action (**Attachment 1**)
- Text of Proposal (**Attachment 2**)
- Initial Statement of Reasons (**Attachment 3**) (The separate attachments to the Initial Statement of Reasons are not being included as a hard copy due to length. An inspection copy will be available at the meeting, or can be found on the CBA's website at http://www.dca.ca.gov/cba/laws_and_rules/pubpart.shtml. If you would like a hard copy to be sent to you, please contact staff.)

Comments
During the public hearing the CBA members may hear oral testimony and receive written comments. If any changes are made as a result of these comments, a 15-day

Re-Notice will be required. As of the date of this memo, staff have not received any public comments in relation to this regulatory package. Any comments received after the CBA member mail out will be supplied to the CBA members at the meeting. The CBA may act to adopt the proposed regulations under **CBA Agenda Item VII.B.** Prior to submitting the final regulation package to the OAL, staff will draft responses to any comments and prepare the Final Statement of Reasons for distribution to all persons who provided comments.

Recommendation
None.

Attachments
Notice of Proposed Action
Text of Proposal
Initial Statement of Reasons

TITLE 16. CALIFORNIA BOARD OF ACCOUNTANCY

NOTICE IS HEREBY GIVEN that the California Board of Accountancy is proposing to take the action described in the Informative Digest. Any person interested may present statements or arguments orally or in writing relevant to the action proposed at a hearing to be held at The Sainte Claire, 302 South Market Street, San Jose, CA, 95113, at 9:00 a.m. on November 18, 2011. Written comments, including those sent by mail, facsimile, or e-mail to the addresses listed under Contact Person in this Notice, must be received by the California Board of Accountancy at its office not later than 5:00 p.m. on October 31, 2011 or must be received by the California Board of Accountancy at the hearing. The California Board of Accountancy, upon its own motion or at the instance of any interested party, may thereafter adopt the proposals substantially as described below or may modify such proposals if such modifications are sufficiently related to the original text. With the exception of technical or grammatical changes, the full text of any modified proposal will be available for 15 days prior to its adoption from the person designated in this Notice as contact person and will be mailed to those persons who submit written or oral testimony related to this proposal or who have requested notification of any changes to the proposal.

Authority and Reference: Pursuant to the authority vested by Sections 5010, 5092, 5093, 5094 and 5094.6 of the Business and Professions Code; and to implement, interpret or make specific Sections 5092, 5093, 5094 and 5094.6 of the Business and Professions Code; the California Board of Accountancy is considering changes to Division 1 of Title 16 of the California Code of Regulations as follows:

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

Existing law, Business and Professions Code §5094.6(c), requires that, no later than January 1, 2012, the Board adopt, by regulation, guidelines for accounting study to be included as part of the education required for licensure as a certified public accountant. In adopting such regulations, the Board is required to consider the views of the Board's Accounting Education Advisory Committee. This regulatory proposal would implement and establish the guidelines for accounting study as required by Section 5094.6(c), as follows:

1. Adopt Section 2.8 Title 16 of the California Code of Regulations.

This proposal would define "satisfactory evidence" of completion of educational qualifications as certified transcripts mailed directly to the Board from the educational institution. It allows that in unusual circumstances, other evidence may be accepted by the Board. It states that foreign transcripts must be evaluated by a Board-approved credential evaluation service.

2. Amend Section 9.2 Title 16 of the California Code of Regulations.

This proposal would delete the definition of "satisfactory evidence" which is being restated in proposed Section 2.8, and it would provide that the unit conversion formula is applicable to the entire article rather than limited to only this section.

3. Adopt Section 11 Title 16 of the California Code of Regulations.

This proposal would specify that an applicant for licensure after January 1, 2014 must complete 24 units of accounting subjects, 24 units of business-related subjects, 20 units of accounting study and 10 units of ethics study. The applicant must provide satisfactory evidence of completion of these units.

4. Adopt Section 11.1 Title 16 of the California Code of Regulations.

This proposal would define the 20 units of accounting study required in Section 11. An applicant may meet this requirement by obtaining:
1. A Master's degree in Accounting, Taxation, or Laws in Taxation; or
2. Completing a minimum of six units in accounting, a maximum of 14 units in business-related subjects, a maximum of nine units in other academic work relevant to accounting and business, and a maximum of four units in internships or independent studies.

This proposal also defines "other academic work relevant to accounting and business" as:

- a maximum of three units in courses that increase oral, verbal, written and presentation skills which also increase the ability to gather, critically analyze and assess, and reach conclusions from certain disciplines;
- a maximum of three units in foreign languages or in courses whose title contains certain words; and
- a maximum of three units in courses providing information on markets within which a particular industry operates and contain certain words in the title or be within certain disciplines.

<u>FISCAL IMPACT ESTIMATES</u>

<u>Fiscal Impact on Public Agencies Including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State:</u>
The anticipated workload increase is considered minor and absorbable and can be redirected within existing Board staffing levels.

<u>Nondiscretionary Costs/Savings to Local Agencies:</u> None

<u>Local Mandate:</u> None

<u>Cost to Any Local Agency or School District for Which Government Code Sections 17500-17630 Require Reimbursement:</u> None

<u>Business Impact:</u>
The Board has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

AND

The following studies/relevant data were relied upon in making the above determination:
It is not anticipated that this proposal would require any additional costs to businesses or individuals. The law establishes the requirement of the 20 units of accounting study. This regulation is designed to clarify and specify which courses would qualify in order to satisfy this requirement.

Impact on Jobs/New Businesses:

The Board has determined that this regulatory proposal will not have any impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California.

Cost Impact on Representative Private Person or Business:

The cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action and that are known to the Board are insignificant.

Effect on Housing Costs: None

EFFECT ON SMALL BUSINESS

The Board has determined that the proposed regulations may affect small businesses.

CONSIDERATION OF ALTERNATIVES

The Board must determine that no reasonable alternative it considered to the regulation or that has otherwise been identified and brought to its attention would either be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposal described in this Notice.

Any interested person may present statements or arguments orally or in writing relevant to the above determinations at the above-mentioned hearing.

INITIAL STATEMENT OF REASONS AND INFORMATION

The Board has prepared an initial statement of reasons for the proposed action and has available all the information upon which the proposal is based.

TEXT OF PROPOSAL

Copies of the exact language of the proposed regulations and of the initial statement of reasons, and all of the information upon which the proposal is based, are available on

the Board's Internet Web site at
http://www.dca.ca.gov/cba/laws_and_rules/pubpart.shtml and may also be obtained at the hearing or prior to the hearing upon request from the California Board of Accountancy at 2000 Evergreen Street, Suite 250, Sacramento, California 95815.

AVAILABILITY AND LOCATION OF THE FINAL STATEMENT OF REASONS AND RULEMAKING FILE

All the information upon which the proposed regulations are based is contained in the rulemaking file which is available for public inspection by contacting the person named in the following section.

You may obtain a copy of the final statement of reasons once it has been prepared, by making a written request to the contact person named in the following section or by accessing the Web site listed in the following section.

CONTACT PERSON

Inquiries or comments concerning the proposed rulemaking action may be addressed to:

Name:	Matthew Stanley
Address:	California Board of Accountancy 2000 Evergreen Street, Suite 250 Sacramento, CA 95815
Telephone No.:	916-561-1792
Fax No.:	916-263-3678
E-Mail Address:	mstanley@cba.ca.gov

The backup contact person is:

Name:	Dan Rich
Address:	California Board of Accountancy 2000 Evergreen Street, Suite 250 Sacramento, CA 95815
Telephone No.:	916-561-1713
Fax No.:	916-263-3678
E-Mail Address:	drich@cba.ca.gov

Web site Access: Materials regarding this proposal can be found at http://www.dca.ca.gov/cba/laws_and_rules/pubpart.shtml.

PROPOSED REGULATORY LANGUAGE

Adopt Section 2.8 in Article 1 of Division 1 of Title 16 of the California Code of Regulations to read:

2.8 Definition of Satisfactory Evidence.

For the purposes of this division, satisfactory evidence as to educational qualifications for examination and licensure shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution. In unusual circumstances, the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence includes an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.

Note: Authority cited: Sections 5010 and 5094, Business and Professions Code. Reference: Sections 5092, 5093 and 5094, Business and Professions Code.

Amend Section 9.2 and Adopt Sections 11 and 11.1 in Article 2 of Division 1 of Title 16 of the California Code of Regulations to read:

9.2. Education Required Under Business and Professions Code Sections 5092 and 5093.

(a) Each applicant shall present satisfactory evidence that he or she has received a baccalaureate or higher degree, has completed the accounting subjects specified in subsection (b) of this section, and has completed the business-related subjects specified in subsection (c) of this section.
(b) The applicant shall have completed a minimum of 24 semester units, or the equivalent in quarter units, selected from the following accounting subjects: accounting, auditing, financial reporting, external or internal reporting, financial statement analysis or taxation.
(c) In addition to the accounting courses described in subsection (b), an applicant shall have completed a minimum of 24 semester units, or the equivalent in quarter units, selected from the following business-related subjects: accounting subjects in excess of the 24 semester units as described in subsection (b), business administration, economics, finance, business management, marketing, computer science/information systems, statistics, business communications, mathematics, business law, or business related law courses offered by an accredited law school.
(d) Qualifying education shall be completed within the following time frames specified in this subsection:
(1) Except as provided for in subsection (d)(2), applicants shall complete the education required by this section before applying for examination for the first time.

(2) An applicant who applied, qualified, and sat for at least two subjects of the examination for the Certified Public Accountant License before May 15, 2002, may provide evidence of qualifying education at the time of application for licensure.
~~(e) Satisfactory evidence as to educational qualifications shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution; however, in unusual circumstances the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence usually takes the form of an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.~~
~~(f)~~(e) For purposes of this ~~section~~ article, one quarter unit is equivalent to two-thirds of one semester unit.

Note: Authority cited: Sections 5010, 5092 and 5093, Business and Professions Code. Reference: Sections 5092 and 5093, Business and Professions Code.

11. Education Required to Apply for Certified Public Accountant License.

(a) An applicant for certified public accountant licensure after January 1, 2014, shall meet all of the following requirements:
(1) completion of 24 semester units of accounting subjects as described in Section 9.2(b),
(2) completion of 24 semester units of business-related subjects as described in Section 9.2(c),
(3) completion of 20 semester units of accounting study as described in Section 11.1; and
(4) completion of 10 semester units of ethics study.
(b) An applicant shall present satisfactory evidence that he or she has completed the units required in subsection (a).

Note: Authority cited: Sections 5010, 5093 and 5094.6, Business and Professions Code. Reference: Sections 5093, 5094, and 5094.6, Business and Professions Code.

11.1. Accounting Study.

(a)For an applicant to satisfy the accounting study requirement described in Section 11(a)(3), he or she shall meet either of the following requirements:
(1) conferral of a Master of Accounting, Master of Taxation, or Master of Laws in Taxation degree, or;
(2) completion of 20 semester units that satisfy the following requirements:
(A) a minimum of six semester units shall be completed in accounting subjects as described in Section 9.2(b),
(B) a maximum of 14 semester units may be completed in business-related subjects as described in Section 9.2(c),
(C) a maximum of nine semester units may be completed in other academic work relevant to accounting and business; and

(D) a maximum of four semester units may come from courses completed in internships or independent studies.
(b) For the purposes of this section, “other academic work relevant to accounting and business” means:
(1) a maximum of three semester units in courses that increase an applicant’s oral, verbal, written, and presentation skills, as well as increase his or her ability to gather, critically analyze and assess, and reach conclusions. Courses counted towards this requirement shall be completed in any of the following disciplines: English, Communications, Journalism, or the Physical, Life, Natural, and Social Sciences;
(2) a maximum of three semester units in courses in foreign languages, which may include sign language, or in courses containing the word “culture,” “cultural,” or “ethnic” in the course title; and,
(3) a maximum of three semester units in courses that provide applicants with information on the business, economic, or financial market within which a particular industry operates. Courses shall either include the word “industry” or “administration” in the course title, or be completed in one of the following disciplines: Engineering, Architecture, or Real Estate.

Note: Authority cited: Sections 5010 and 5094.6, Business and Professions Code. Reference: Sections 5094 and 5094.6.

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: November 18, 2011

Subject Matter of Proposed Regulations: Accounting Study

Sections Affected:

1. Adopt Section 2.8 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would define “satisfactory evidence” of completion of educational qualifications as certified transcripts mailed directly to the Board from the educational institution. It allows that in unusual circumstances, other evidence may be accepted by the Board. It states that foreign transcripts must be evaluated by a Board-approved credential evaluation service. This proposal would move this current definition of “satisfactory evidence” from Section 9.2(e) to newly established Section 2.8 for the purpose of making the definition applicable to the entirety of Division 1.

Factual Basis/Rationale:

The term “satisfactory evidence” is used frequently throughout the Accountancy Act when describing minimum educational requirements for licensure. As a result, the Board deemed it appropriate to apply the current Section-limited definition to the entire Division. This will further assist in providing specific criteria and direction from the Board as to what evidence of meeting educational requirements would be deemed “satisfactory” to make an applicant eligible for licensure.

2. Amend Section 9.2 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would delete the definition of “satisfactory evidence” which is being restated in proposed Section 2.8, and it would provide that the unit conversion formula (which converts educational “semester” units to “quarter” units) is applicable to the entire “article” rather than limited to only this section.

Factual Basis/Rationale:

The term “satisfactory evidence” is used frequently throughout the Accountancy Act when describing minimum educational requirements for licensure. As a result, this definition is being moved to another new Section, 2.8, so it is clear that the definition applies to all regulatory provisions within this Division. In addition, the new accounting study guidelines, which include specified “semester units” (see e.g., proposed Section 11.1) would be added to this Article. However, graduates of educational institutions acquire educational “quarter” as well as “semester” units. As a result, it is necessary to make the unit conversion formula (which converts educational “semester” units to “quarter” units) applicable to the entire “article” so these applicants can more easily determine whether their educational units qualify.

3. Adopt Section 11 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would specify the education that is required in order to apply for a license as a certified public accountant (CPA) after January 1, 2014. An applicant must provide satisfactory evidence of an education that includes 24 units of accounting subjects, 24 units of business-related subjects, 20 units of accounting study, and 10 units of ethics study, as specified.

Factual Basis/Rationale:

Section 5093 of the Business and Professions (B&P) Code requires 24 units of accounting subjects and 24 units of business-related subjects. Section 5094 requires an additional 20 units of accounting study, and 10 units of ethics study after January 1, 2014. This proposal will consolidate these requirements into one place and identify where the details of the requirements can be found.

4. Adopt Section 11.1 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would define the 20 units of accounting study required in Section 11 and would be required for applicants for CPA licensure after January 1, 2014. An applicant may meet this requirement by obtaining:

1. A Master’s degree in Accounting, Taxation, or Laws in Taxation; or
2. Completing a minimum of semester six units in accounting, a maximum of 14 semester units in business-related subjects, a maximum of nine semester units in other academic work relevant to accounting and business, and a maximum of four semester units in internships or independent studies.

This proposal would also define “other academic work relevant to accounting and business” as:

- a maximum of three semester units in courses that increase oral, verbal, written and presentation skills which also increase the ability to gather, critically analyze and assess, and reach conclusions from certain disciplines;

- a maximum of three semester units in foreign languages or in courses whose title contains the words “culture”, “cultural” or “ethnic”; and,
- a maximum of three semester units in courses providing information on the business, economic or financial markets within which a particular industry operates. Courses that provide information on business, economic or financial markets must include the word “industry” or “administration” in the course title or be completed in one of the following disciplines: Engineering, Architecture, or Real Estate.

Factual Basis/Rationale:

Section 5094.6 of the B&P Code requires the Board to adopt by regulation prior to January 1, 2012 guidelines for accounting study to be included as part of the education required for licensure as a certified public accountant as of January 2, 2014. In doing so, the Board is required to consider the views of the Accounting Education Advisory Committee (AEC) which was appointed by the Board pursuant to Section 5094.7. The AEC held several meetings in 2010 and 2011 at which the AEC considered testimony and information provided by members of the public, including members of the educational community, and developed a “Report on the Development of and Recommendations for the 20 Units of Accounting Study” (Report) (Attachment 1) upon which this proposal is based.

The only change made by the Board to the AEC’s recommendation is as follows: the AEC recommended applicants complete six of the 20 total units of accounting study at an upper division level or higher (Report, page 10, Recommendation #1). The Board eliminated that recommendation at its July 2011 meeting. The rationale for this change was based on a legal opinion provided by the Board’s Department of Consumer Affairs legal counsel (Attachment 2) that opined that such a requirement is inconsistent with the Board’s authorizing statutes.

Based upon the foregoing information received from the AEC and considered by the Board, the Board developed this proposed language to implement the requirements of Business and Professions Code sections 5094(b) and 5094.6(c).

Underlying Data

Technical, theoretical or empirical studies or reports relied upon (if any):

Attachment 1: Accounting Education Committee’s Report on the Development of and Recommendations for the 20 Units of Accounting Study dated July 21, 2011, with attachments

- Attachment 2: Legal Opinion: Legality of Requiring Upper Division Courses to

Meet the Accounting Study or Ethics Study Guidelines Promulgated Pursuant to SB 819 (Stats. 2009, ch. 308) dated July 7, 2011

Business Impact

This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/ testimony:
It is not anticipated that this proposal would require any additional costs to businesses or individuals. The law establishes the requirement of the 20 units of accounting study. This regulation is designed to clarify and specify which courses would qualify in order to satisfy this requirement.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives

No reasonable alternative to the regulation would be either more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed regulation.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

The Board of Accountancy is mandated to promulgate regulations to specify the 20 units of Accounting Study by January 1, 2012. Therefore, failing to adopt regulations is not a legally viable alternative.

The Board's Accounting Education Committee and the Board considered information and testimony received over a period of approximately 15 months. The Board believes that no alternative it considered would be either more effective than or as effective as and less burdensome on affected private persons than this proposed regulation.

The Board considered the AEC's recommendation requiring applicants to complete a minimum of six units of upper division level or higher, but this was rejected due to an opinion provided by the Board's legal counsel (Attachment 2) that opined that such a requirement is inconsistent with the Board's authorizing statutes.

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: *http://www.cba.ca.gov*

CBA Item VII.B.
November 17-18, 2011

Discussion and Possible Action to Adopt or Amend Proposed Text at Title 16, CCR Sections 2.8, 9.2, 11, and 11.1 – Accounting Study

Presented by: Matthew Stanley, Legislation/Regulation Analyst
Date: October 24, 2011

Purpose of the Item
Following a public hearing, the California Board of Accountancy (CBA) may discuss and take action to adopt or modify a proposed regulation.

Action Needed
Possible adoption and/or modification of proposed regulation.

Background
After the conclusion of the hearing under **CBA Agenda Item VII.A.**, the next step in the process is that the CBA must act to formally adopt the proposed regulations outlined in the subject of this memorandum.

Comments
Staff would like to request the following changes be adopted to maintain consistency with the law as amended by SB 773 of 2011.

- Change the date the regulations go into effect from "after January 1, 2014" to "after December 31, 2013,"
- Describe where the ethics study requirements are found, and
- Modify the authority and reference notes.

In addition, the CBA may wish to discuss a change to Section 11.1(a)(2)(D). Currently, there is nothing to tie the independent study and internships to accounting study. It is possible, under the current proposal, that a student could take four units of independent study in the frequently mentioned "Underwater Basket Weaving" and still receive credit towards their 20 units of accounting study. The CBA may wish to specify in Section 11.1(a)(2)(D) that these four units must be in subjects designated in subsections (a)-(c) (**Attachment 1**).

The CBA may decide to make changes to the proposed regulations based on any comments received or staff recommendations, or it may proceed with adopting the proposal without modification.

- ***If no changes are to be made after the public comment period and hearing closes:***
  Motion: Direct staff to take all steps necessary to complete the rulemaking process, including the filing of the final rulemaking package with the Office of Administrative Law, authorize the Executive Officer to make any non-substantive changes to the proposed regulations, and adopt the proposed regulations as originally noticed.

- ***If substantive changes are to be made after the public comment period and hearing closes***:
  Motion: Direct staff to take all steps necessary to complete the rulemaking process, including sending out the modified text for an additional 15-day comment period. If after the 15-day public comment period, no adverse comments are received, authorize the Executive Officer to make any non-substantive changes to the proposed regulations, and adopt the proposed regulations as described in the modified text notice.

Recommendation

Staff recommend the following:

- Adopt a motion to incorporate the three recommended changes to maintain consistency with the law and to modify Section 11.1(a)(2)(D) to ensure all units are relevant to accounting study as specified in **Attachment 1**.
- Adopt the staff provided motion above related to making substantive changes.

Attachment

Proposed Modifications

Attachment 1

PROPOSED REGULATORY LANGUAGE

Adopt Section 2.8 in Article 1 of Division 1 of Title 16 of the California Code of Regulations to read:

2.8 Definition of Satisfactory Evidence.

For the purposes of this division, satisfactory evidence as to educational qualifications for examination and licensure shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution. In unusual circumstances, the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence includes an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.

Note: Authority cited: Sections 5010 and 5094, Business and Professions Code. Reference: Sections 5092, 5093 and 5094, Business and Professions Code.

Amend Section 9.2 and Adopt Sections 11 and 11.1 in Article 2 of Division 1 of Title 16 of the California Code of Regulations to read:

9.2. Education Required Under Business and Professions Code Sections 5092 and 5093.

(a) Each applicant shall present satisfactory evidence that he or she has received a baccalaureate or higher degree, has completed the accounting subjects specified in subsection (b) of this section, and has completed the business-related subjects specified in subsection (c) of this section.
(b) The applicant shall have completed a minimum of 24 semester units, or the equivalent in quarter units, selected from the following accounting subjects: accounting, auditing, financial reporting, external or internal reporting, financial statement analysis or taxation.
(c) In addition to the accounting courses described in subsection (b), an applicant shall have completed a minimum of 24 semester units, or the equivalent in quarter units, selected from the following business-related subjects: accounting subjects in excess of the 24 semester units as described in subsection (b), business administration, economics, finance, business management, marketing, computer science/information systems, statistics, business communications, mathematics, business law, or business related law courses offered by an accredited law school.
(d) Qualifying education shall be completed within the following time frames specified in this subsection:
(1) Except as provided for in subsection (d)(2), applicants shall complete the education required by this section before applying for examination for the first time.

(2) An applicant who applied, qualified, and sat for at least two subjects of the examination for the Certified Public Accountant License before May 15, 2002, may provide evidence of qualifying education at the time of application for licensure.
~~(e) Satisfactory evidence as to educational qualifications shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution; however, in unusual circumstances the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence usually takes the form of an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.~~
~~(f)~~(e) For purposes of this ~~section~~ article, one quarter unit is equivalent to two-thirds of one semester unit.

Note: Authority cited: Sections 5010, 5092 and 5093, Business and Professions Code. Reference: Sections 5092 and 5093, Business and Professions Code.

11. Education Required to Apply for Certified Public Accountant License.

(a) An applicant for certified public accountant licensure after ~~January 1, 2014~~ December 31, 2013, shall meet all of the following requirements:
(1) completion of 24 semester units of accounting subjects as described in Section 9.2(b),
(2) completion of 24 semester units of business-related subjects as described in Section 9.2(c),
(3) completion of 20 semester units of accounting study as described in Section 11.1; and
(4) completion of 10 semester units of ethics study as described in Business and Professions Code Section 5094.3.
(b) An applicant shall present satisfactory evidence that he or she has completed the units required in subsection (a).

Note: Authority cited: Sections 5010, 5093 and 5094.6, Business and Professions Code. Reference: Sections 5093, 5094, and 5094.6, Business and Professions Code.

11.1. Accounting Study.

(a)For an applicant to satisfy the accounting study requirement described in Section 11(a)(3), he or she shall meet either of the following requirements:
(1) conferral of a Master of Accounting, Master of Taxation, or Master of Laws in Taxation degree, or;
(2) completion of 20 semester units that satisfy the following requirements:
(A) a minimum of six semester units shall be completed in accounting subjects as described in Section 9.2(b),
(B) a maximum of 14 semester units may be completed in business-related subjects as described in Section 9.2(c),

(C) a maximum of nine semester units may be completed in other academic work relevant to accounting and business; and
(D) a maximum of four semester units may come from ~~courses completed in~~ internships or independent studies courses which meet the subject matter requirements of Section 11.1(a)(2)(A), (B), or (C).
(b) For the purposes of this section, "other academic work relevant to accounting and business" means:
(1) a maximum of three semester units in courses that increase an applicant's oral, verbal, written, and presentation skills, as well as increase his or her ability to gather, critically analyze and assess, and reach conclusions. Courses counted towards this requirement shall be completed in any of the following disciplines: English, Communications, Journalism, or the Physical, Life, Natural, and Social Sciences;
(2) a maximum of three semester units in courses in foreign languages, which may include sign language, or in courses containing the word "culture," "cultural," or "ethnic" in the course title; and,
(3) a maximum of three semester units in courses that provide applicants with information on the business, economic, or financial market within which a particular industry operates. Courses shall either include the word "industry" or "administration" in the course title, or be completed in one of the following disciplines: Engineering, Architecture, or Real Estate.

Note: Authority cited: Sections 5010, 5093 and 5094.6, Business and Professions Code. Reference: Sections ~~5094~~ 5093 and 5094.6.

CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
AUGUST 2011 – OCTOBER 2011

EXAMINATION	August	September	October
CPA Examination Applications Received			
First-time Sitter	625	554	480
Repeat Sitter	904	2062	1401
Processing Time Frames			
First-time Sitter	21	15	21
Repeat Sitter	5	8	8
INITIAL LICENSING			
CPA Licensure Applications Received			
CPA	285	268	358
Partnership	10	8	9
Corporation	16	11	10
Fictitious Name Permit (Registration)	5	13	12
Processing Time Frames			
CPA	14	12	14
Partnership	7	11	10
Corporation	7	11	10
Fictitious Name Permit (Registration)	7	11	10
Applicants Licensed Under			
Pathway 0	1	1	1
Pathway 1A	37	22	38
Pathway 1G	66	31	38
Pathway 2A	84	56	73
Pathway 2G	147	93	99

CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
AUGUST 2011 – OCTOBER 2011

RENEWAL AND CONTINUING COMPETENCY	August	September	October
Licenses Renewed			
CPA	3,278	3,191	3,198
PA	1	1	2
Partnership	18	30	38
Corporation	115	167	107
CE Worksheet Review			
CPA/PA Applications Reviewed	2,578	3,410	2,027
Deficient Applications Identified	252	159	80
Compliance Responses Received *(Including Requests for Inactive Status)*	58	32	4
Enforcement Referrals	0	0	0
Outstanding Deficiencies *(Including Abandonment)*	194	127	76
PRACTICE PRIVILEGE			
Notifications Received			
Hardcopy	26	49	27
Electronic	120	117	142
Disqualifying Conditions Received			
Approved	1	2	0
Denied	0	1	0
Pending	4	5	8
Practice Privilege Suspension Orders			
Notice of Intent to Suspend	0	5	12
Administrative Suspension Order	0	5	1

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DIVISION AND UNIT ACTIVITIES

Examination Unit

The Examination Unit recently consolidated the Uniform CPA Examination Handbooks for first-time applicants and repeat applicants into one handbook. Staff also made significant edits to reflect updated material such as the streamlining of the score release process. The revised handbook is pending legal review.

Initial Licensing Unit

Senior analysts within the Initial Licensing Unit have begun receiving training on the changes to the educational requirements for CPA licensure that will be effective January 1, 2014. Additional training for staff within the ILU and examination unit will occur over the coming months. More information is provided under CBA Agenda Item XIII.B.

Renewal and Continuing Competency Unit

- The RCC Unit is recruiting to fill a fulltime SSA position, a fulltime OT position, and an OT Retired Annuitant Position.

- Staff is actively working with three additional Regulatory Review Course providers to amend their course materials to be in compliance with the course content requirements, and four more courses are pending initial review.

COMMITTEE NEWS

CPA Qualifications Committee

At the October 19, 2011 CPA Qualifications Committee (QC) meeting, members continued to discuss the development of a training plan to be utilized by members as it relates to CBA Regulation Section 69 and personal appearance reviews before the committee. The purpose of the peer training is to establish and document best practices related to interview format and procedures for current and new members. Discussions related to the development of a training plan will continue to take place at future QC meetings and CBA members will be kept apprised at future meetings.

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CBA Item VIII.B.
November 17-18, 2011

Report on Activities Related to the New Educational Requirements for CPA Licensure Set to Take Effect January 1, 2014

Presented by: Dominic Franzella, Licensing Manager
Date: October 21, 2011

PURPOSE OF THE ITEM

Staff is providing members with information regarding activities it will be pursuing over the coming months regarding the new educational requirements for licensure set to take effect January 1, 2014. Staff will continue to report the progress of these activities, including any added activities, at future California Board of Accountancy (CBA) meetings.

ACTION(S) NEEDED

No specific CBA action is required for this agenda item.

BACKGROUND

Staff fully recognize that the changes to the educational requirements for licensure impact a wide range of stakeholders, including, but by no means limited to, students, institutions of higher learning, and recruiters for accounting firms. As a result, staff believed it was prudent to keep members informed regarding activities it will be undertaking, with a substantial focus on outreach, informing stakeholders about the January 2014 educational changes.

As the CBA transitions to the new educational requirements, staff have an internal team in place working on implementing the new requirements, as well as fostering ideas on options for outreach. This group meets at a minimum twice monthly, has developed a robust project outline for the activities, and has take preliminary steps to begin training additional Licensing Division staff.

OVERVIEW OF ACTIVITIES

Regulations

On September 6, 2011, staff submitted the initial materials to the Office of Administrative Law, thereby beginning the rulemaking process for the CBA's accounting study guidelines. The public comment period for this rulemaking began on September 16, 2011 and ends on October 31, 2011. At the November 2011 CBA meeting, the CBA will conduct a public hearing regarding the proposed accounting study guidelines (**CBA Agenda Item VII**).

As a result of the California Legislature's passage of Senate Bill (SB) 773, which codified the ethics study guidelines, staff ceased work on the anticipated rulemaking package that would have made permanent the ethics study guidelines as developed by the Ethics Curriculum Committee.

Website
One of the primary means of communication at the CBA's disposal is its website. As such, just prior to the Accounting Education Committee and Ethics Curriculum Committee joint meeting, staff created a specific webpage devoted to providing up-to-date information on the new educational requirements for CPA licensure. Since that time, as modifications have been made to the respective guidelines, staff have updated the webpage.

Presently, the webpage includes information on the CBA proposal for the accounting study (including information on the rulemaking process), the final version of the ethics study guidelines (resulting from SB 773), a tip sheet on the requirements for licensure beginning January 1, 2014 (**Attachment 1**), and a series of frequently asked questions. Between late May and early October, the webpage has had over 25,000 hits.

Social Media
Staff continue to explore ways to leverage social media outlets, such as Facebook and Twitter, to get the message out regarding the new licensure requirements. One activity, which staff have previously used for Examination and Peer Review, is conducting Facebook events where individuals have a forum to ask questions and receive real-time answers.

On October 20, 2011, staff held a CBA Facebook Event on the new licensure requirements. The event, which staff titled "Getting to Know the New CPA Licensure Requirements," was held in two, one-hour sessions in an effort to accommodate individuals' busy schedules. This successful event provided individuals with important information regarding the new licensure requirements, while it also enlightened staff regarding the various concerns and issues individuals are experiencing related to the new educational requirements.

In addition to any future Facebook events, staff also intend on developing some standard messages that it can post via Facebook and Twitter to draw stakeholders to the important information on the CBA website.

Online Webinars
Presently, staff is exploring the feasibility of providing a webinar(s) where stakeholders can participate via remote locations and see a live presentation regarding the new

licensure requirements. As part of any webinar, individuals will be able to ask questions and receive real-time answers. Staff have identified at least one free software program that may be suitable.

UPDATE and Other Print Media
With the ethics study guidelines now finalized and the CBA embarking on the rulemaking activities for the accounting study guidelines, over the coming months, staff will draft various articles for publication in CBA's UPDATE, as well as seek to get articles published in print and web formats both in California and nationally regarding the changes to the educational requirements. The first UPDATE article is set to be included in the upcoming publication. As for other media outlets, staff intend on exploring opportunities with professional trade and student/educational organizations, as well as the National Association of State Boards of Accountancy (NASBA), and American Institute of Certified Public Accountants.

Live Meetings and Presentations
Recognizing that colleges and universities, specifically their respective faculty, are on the frontlines with respect to interacting with future accounting professionals, keeping these individuals abreast of the changes to the licensure requirements is tantamount to a successful transition to the new requirements. Therefore, staff decided to hold three "Open Houses," inviting accounting and business faculty.

These Open Houses will allow college and university faculty the chance to receive information on the new educational requirements in a live setting, as well as an opportunity to meet various CBA members and staff. At present, staff intend on conducting three Open Houses throughout the State, thus hopefully maximizing the opportunity to have faculty from various regions attend. Two will be held in conjunction with upcoming CBA meetings and one at the CBA office. Provided below are the proposed dates and locations of the Open Houses.

- January 25, 2011 – Irvine, California
- February 17 – Sacramento, California
- March 22, 2011 – San Jose, California

One of the centerpieces of these Open Houses will be a PowerPoint presentation that outlines the new educational requirements. It is anticipated that the presentation will make its debut at the first of the three "Open Houses." Once completed, staff will, in all likelihood, post this standardized presentation to the CBA website, as well as make it available to CBA members for various speaking engagements.

Colleges/Universities
As mentioned at the prior CBA meeting, individuals have voiced concern that many colleges and universities may still be unaware of the forthcoming changes to the educational requirements for CPA licensure. One of the measures staff will employ to

remedy this issue include the above-referenced Open Houses. As part of the communication that went out to the colleges and universities regarding the Open Houses (**Attachment 2**), staff included information on the recently enacted ethics study guidelines and proposed accounting study guidelines. Staff intend on keeping an open-line of communication with the various colleges and universities so that it can keep them informed regarding the progress of the educational changes.

Although these Open Houses target only California institutions, staff realize that many of California's applicants for CPA licensure earn some or all of their education at out-of-state colleges and universities. As such, staff intend on reaching out to these institutions regarding the educational changes through the various governing bodies for institutions of higher learning throughout the country. Additionally, staff will work with NASBA and enlist its assistance in disseminating information.

COMMENTS

Staff recognize that these upcoming changes not only affect applicants for licensure after January 1, 2014, but also applicants trying to get licensed prior to that date. Therefore, in early October, staff added additional information regarding all the steps that individuals will need to complete on or before December 31, 2011 to get licensed under the present pathway requirements (**Attachment 3**).

RECOMMENDATION

Although no recommendation is required for this agenda item, as always, staff would value any feedback members may have on the above activities, as well as any ideas they believe would assist in getting the message out regarding the new licensure requirements.

ATTACHMENTS

1. Tip Sheet –Educational Requirements for CPA Licensure Beginning January 1, 2014
2. Open House letter to various California colleges and universities
3. Meeting the Present Pathway Requirements

EDUCATIONAL REQUIREMENTS FOR CPA LICENSURE BEGINNING JANUARY 1, 2014

Attachment 1

BACCALAUREATE DEGREE – 150 SEMESTER UNITS

24 SEMESTER UNITS – ACCOUNTING SUBJECTS

- Accounting
- Financial Reporting
- Auditing
- Financial Statement Analysis
- Taxation
- External & Internal Reporting

24 SEMESTER UNITS – BUSINESS-RELATED SUBJECTS

- Business Administration
- Economics
- Marketing
- Computer Science & Information Services
- Business Management
- Finance
- Statistics
- Business-related law courses offered at an accredited law school
- Business Communications
- Business Law
- Mathematics
- Any accounting subjects in excess of the 24 units needed to fulfill the accounting requirement

20 SEMESTER UNITS – ACCOUNTING STUDY (PROPOSED)

- Minimum 6 semester units in accounting subjects (see above)
- Maximum 14 semester units in business-related subjects (see above)
- Maximum 9 semester units in other academic work relevant to business and accounting (maximum 3 units from any one area)
  - Skills-based courses – Courses completed in the following disciplines: English, Communications, Journalism, and the Physical, Life, Natural, & Social Sciences
  - Foreign Languages/ Cultural & Ethnic Studies – Courses in foreign languages (including sign language) and courses with the terms culture, cultural, or ethnic in the titles
  - Industry-based courses – Courses with the words "industry" or "administration" in the title or courses completed in the following disciplines: Engineering, Architecture, and Real Estate
- Maximum 4 semester units in internships/independent studies
- Completion of a Master of Accounting, Taxation, or Laws in Taxation is equivalent to 20 semester units of accounting study

10 SEMESTER UNITS – ETHICS STUDY (RESULTING FROM PASSAGE OF SB 773)

- Minimum 3 semester or 4 quarter units in accounting ethics or accountants' professional responsibilities. Applicants must meet this requirement beginning January 1, 2017.
  - The course must be completed at an upper division level or higher, unless it was completed at a community college.
- Maximum 7 semester or 11 quarter units in courses containing any of the following terms in the course title:
  - Auditing
  - Business Leadership
  - Corporate Governance
  - Ethics
  - Human Resources Management
  - Management of Organizations
  - Organizational Behavior
  - Business, Government & Society
  - Business Law
  - Corporate Social Responsibility
  - Fraud
  - Legal Environment of Business
  - Morals
  - Professional Responsibilities
- Maximum 3 semester or 4 quarter units in courses from the following disciplines:
  - Philosophy
  - Religion
  - Theology
  - Course title must contain one of the following words or terms, or the sole name in the course title is the name of the discipline.
    - Introduction
    - Introductory
    - General
    - Principles of
    - Fundamentals of
    - Foundations of
    - Survey of
- Maximum of one semester unit in a course devoted solely to financial statement auditing

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Attachment 2

November 3, 2011

Andrew Atkeson, Dir of Business
University of California, Los Angeles
110 Westwood Plaza
Los Angeles, CA 90095-1481

TEMPLATE

Re: New CPA Educational Requirements

Dear Andrew Atkeson:

The California Board of Accountancy (CBA) is continuing to work toward finalizing the new educational requirements for CPA licensure, and we want to take this opportunity to keep you and your institution informed about the progress.

As you are probably aware, in 2009, the California Legislature passed Senate Bill (SB) 819 (Chapter 308), which significantly changed the landscape for obtaining CPA licensure in the State of California. Beginning January 1, 2014, California will have some of the most rigorous educational requirements to begin the practice of public accountancy, especially as it relates to ethics education.

Since early 2010, we have had two committees (the Ethics Curriculum Committee or ECC and Accounting Education Committee or AEC) diligently working to formulate the respective recommendations on guidelines for the new 10 semester units of ethics study and 20 semester units of accounting study. In July 2011, both committees provided their proposals to the CBA.

As it relates to the ethics study, as part of its 2011 session, the California Legislature passed SB 773 (Chapter 344). This bill codified the vast majority of the ECC's proposal for 10 semester units of ethics study. As for the 20 semester units of accounting study, on September 16, 2011, the CBA initiated the rulemaking process to establish the guidelines via regulations. We anticipate that the regulations will be approved no later than October 2012.

We recognize the impact these educational changes will have to future applicants for CPA licensure, both prior to and after January 1, 2014. To assist in providing up-to-date information, we have developed a specific section on our website (www.cba.ca.gov) devoted to the new licensure requirements. On this page, individuals can access the final version of the ethics study guidelines, the present proposal for the accounting study (including information on and the progress of the rulemaking process), a tip sheet on the requirements for licensure beginning January 1, 2014, and a series of frequently asked questions.

Concurrently, we are exploring other avenues for increasing outreach so that all affected stakeholders may stay informed regarding these important changes. One such way is through a series of "Open Houses" we will be sponsoring related to the new licensure requirements. These Open Houses will allow you and other faculty at your institution the opportunity to receive information on the new educational requirements for CPA licensure in a live setting, as well as an opportunity to meet various CBA members and staff.

We will be conducting three Open Houses throughout the State, hopefully allowing you to attend one near your area. The dates and location are:

- January 25, 2012 – Irvine, California
- February 17, 2012 – Sacramento, CA
- March 22, 2012 – San Jose, CA

In the near future, we will send out additional details, including exact locations, regarding the various Open Houses. Please save the date, as this will be an opportunity to receive valuable information on the new educational requirements.

Should you have any questions pertaining to the new licensure requirements, or want additional information about the Open Houses, please contact the CBA's Executive Officer Patti Bowers by telephone at (916) 561-1711.

The CBA looks forward to working with you as it embarks on enhancing the protection of California consumers through increased education for CPA licensure.

Sincerely,

Sally Anderson

Sally Anderson, CPA, President
California Board of Accountancy

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Attachment 3

Meeting the Present Pathway Requirements

As many of you intending to apply for a California CPA license are probably aware, legislation passed in 2009 will require applicants to meet additional educational requirements beginning January 1, 2014. If you intend on applying for licensure under the present pathway requirements, you will need to determine whether you will complete all the requirements for licensure prior to January 1, 2014. To qualify under the present pathways, prior to January 1, 2014, you must submit the application and fee, and complete all requirements for licensure, including examination, education, and experience. Provided below is a breakdown for the two pathways.

Pathway 1

- Passed the Uniform CPA Examination
- Baccalaureate degree
- 24-semester units in accounting subjects
- 24-semester units in business-related subjects
- Completion of the PETH Exam (ethics exam offered by CalCPA)
- Fingerprinted
- Completion of two years of general accounting experience

The window for completing all of the requirements under Pathway 1 is quickly closing. If you do not have any prior general accounting work experience, you will need to begin full-time work under the direct supervision of an active licensee by January 1, 2012.

Pathway 2

- Passed the Uniform CPA Examination
- Baccalaureate degree
- 150-semester units
- 24-semester units in accounting subjects
- 24-semester units in business-related subjects
- Completion of the PETH Exam (ethics exam offered by CalCPA)
- Fingerprinted
- Completion of one year of general accounting experience

If you complete your education after January 2013 and have not prior work experience, and thus cannot complete the minimum one year general accounting work experience by January 1, 2014, you will need to meet the new education requirements for licensure.