

July 12, 2024

Edward C. Bernard  
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P.O. Box 5116  
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**Re: Review of the Private Company Council (“PCC”)**

Dear Mr. Bernard,

CFA Institute,<sup>1</sup> in consultation with its Corporate Disclosure Policy Council (“CDPC”)<sup>2</sup>, appreciates the opportunity to comment on the Financial Accounting Foundation’s (“FAF”) *Review of the Private Company Council (“PCC”) [Request for Comment](#)* (“Request for Comment” or “PCC Review”).

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals are ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally in private and public markets.

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<sup>1</sup> With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit <http://www.cfainstitute.org> or follow us on [LinkedIn](#) and [X](#).

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

## INTRODUCTION

### *A More Fundamental and Strategic Review of Private Company Standard Setting is Necessary: Rather than an Operational Review of the PCC*

CFA Institute has previously commented regarding the development of differential accounting and reporting standards for private companies and the creation of the PCC.<sup>3</sup> We have written to the FAF on the issue of differential accounting standards for private companies upon its first consideration of the issue in 2012 and in response to its three-year review in 2015. In [our 2022 letter to the FAF on its strategy review](#), we made the following comment:

#### ***Private Company Standard-Setting***

We have opposed since its inception (e.g., [2012 comment letter](#) and [2015 comment letter](#)) the formation of the Private Company Council (PCC). Our opposition was, in part, due to our concern that:

- Preparers would have a primacy in standard-setting, without significant oversight, that investors don't have given the structure and reporting of the PCC and the fact no similar counterweight council exists for investors;
- Its establishment was based upon the flawed premise that private company investors have greater access to management than public company investors; and
- It would result in backdoor agenda and standard-setting for public companies.

We still hold all of these views and we have seen evidence of backdoor agenda and standard-setting for public companies (e.g., goodwill). Further, private markets are much different, and much larger, than they were a decade ago when the PCC was established.

It has been our long-held view that the information needs of investors are not different based upon their public or private company status. All that is occurring with the creation of private company US GAAP is that the reduced cost of producing more meaningful financial statements is transferring to an increase in the cost of capital charged by investors – a very real cost that is never considered in the standard-setting cost-benefit analysis.

We believe the FAF needs to perform a bottoms-up, fundamental review of the PCC given the changes in private markets and the emergence of concerns investors highlighted a decade ago when it was established. The last assessment of the PCC was done in 2015.

We appreciate that the FAF is reviewing the [Private Company Council](#); however, we would note the FAF asks questions about the operations of the PCC when there are, in our view, more fundamental, overarching, strategic and existential questions related to the status of private company standard setting to be considered by the FAF, as noted in our 2022 letter.

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<sup>3</sup> Prior CFA Institute comment letters addressing Private Company Council:

- Private Company Plan, January 30, 2012 (<https://rpc.cfainstitute.org/-/media/documents/comment-letter/2010-2014/faf-private-company-plan.pdf>)
- Definition of a Public Business Entity, October 28, 2013 (<https://www.cfainstitute.org/-/media/documents/comment-letter/2010-2014/20131028.ashx>)
- Three-Year Review of the Private Company Council, June 22, 2015 (<https://rpc.cfainstitute.org/-/media/documents/comment-letter/2015-2019/20150622.pdf>)
- 2022 FAF Strategy Comment Letter, August 2022 ([https://rpc.cfainstitute.org/-/media/documents/comment-letter/2020-2024/FAF\\_strategy\\_comment\\_letter\\_draft\\_final.pdf](https://rpc.cfainstitute.org/-/media/documents/comment-letter/2020-2024/FAF_strategy_comment_letter_draft_final.pdf))
- 2015 CFA Institute Report, [Addressing Financial Reporting Complexity: Investor Perspectives](#)

Because of the operational rather than strategic nature of the Request for Comment, we contemplated passing on consideration of this consultation. However, after reviewing the comment letters received, their contents, the lack of investor input received by the FAF and a June 6, 2024, Bloomberg BNA article, [Private Company Accountants Push for Bigger Role in US Standards](#), we viewed it important to provide our previous – for historical context – and current investor perspectives.

### ***History of the Formation of the Private Company Council***

Because few, if any, members of the FAF or Financial Accounting Standards Board (“FASB”), were associated with the respective organizations when the debate over the creation of the PCC occurred in 2011 to 2013, we include below a short history of its formation as that context is important to understanding an investor perspective on the formation of the PCC – and the creation of differential private company standards more broadly.

The FASB website provides a [history](#) of the Private Company Council beginning with its formation in 2012. That history commences with the establishment of the PCC and does not include the work of the [2010 Blue-Ribbon Panel \(the “Panel” or “Blue-Ribbon Panel” on Standard Setting for Private Companies\)](#) sponsored by the American Institute of Certified Public Accountants (“AICPA”), FAF and National Association of State Boards of Accountancy (“NASBA”). The Blue Ribbon Panel was an accounting profession<sup>4</sup> and small company led initiative commenced [because of displeasure with the FASB’s Private Company Financial Reporting Committee](#). The result of the Panel was the January 2011 issuance of the [Blue-Ribbon Panel on Standard Setting for Private Companies: Report to the Board of Trustees of the Financial Accounting Foundation \(the “Panel Report”\)](#).

In our 2012 comment letter to the FAF, we highlighted our agreement with the dissenting view presented in the Panel Report.

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 the US GAAP focuses on information needs of equity investors.

However, ***financial statements presented under US 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.

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<sup>4</sup> See also:

AICPA: [AICPA Governing Council Adopts Resolution Supporting Blue Ribbon Panel on Private Company Accounting Standards \(prnewswire.com\)](#)

NASBA: [Microsoft PowerPoint - What's Happening w-Private Company Standards-BRP-Final \(B. Atkinson E&W-Thursday\).pptx \(nasba.org\)](#)

The Panel included 18 members, of which only 2 were investors. The remaining users were 3 bankers and 1 surety provider. As the Panel report highlights, outreach to and response from users was minimal, with nearly no engagement with equity investors. As the dissenting view highlights, the Panel was not presented with arguments or evidence that private company financials do not meet the needs of users.

A February 2011 Journal of Accountancy article, [Standards Overseer to Consider Proposal for Private Company Financial Reporting](#), highlighted that the FAF would consider the findings of the Blue Ribbon Panel in 2011. In November 2011 another Journal of Accountancy article, [FAF Rejects Independent Standard Setter for Private Companies](#), highlights that the FAF rejected the Panel Report's recommendation for a separate standard setting board and proposed the establishment of the Private Company Standards Improvement Council (the "PCSIC") – issuing a consultation to the public in October 2011, with comments due in January 2012.

As noted previously, [CFA Institute responded to the consultation](#); however, from a user perspective, no banks, only one small private equity investor and one association responded to the consultation. Amongst the [217 comment letters received](#), the vast majority were members of the accounting profession serving small companies<sup>5</sup>.

The PCSIC would become the PCC upon the issuance of the FAF's [Final Report: Establishment of the Private Company Council](#) in May 2012. In record time, within four months, the FAF decided to create the Private Company Council.

Before finalizing the [Private Company Decision-making Framework](#) (the "Framework") and [definition of a public business entity](#) – both in late 2013 – the FASB, in conjunction, with the PCC issued [four exposure documents](#) proposing changes to US GAAP.

The AICPA's website provides a series of interesting [frequently asked questions \(FAQs\)](#) related to the history of private company financial reporting. We would encourage current FAF members to familiarize themselves with the history of the formation of the PCC as it informs the degree to which investor input was included.

### ***Response to Questions, Review of Previous Commentary and Additional Considerations***

For historical context, we aggregated our previous commentary on the PCC and include it at [Appendix 1](#). We provide additional matters for consideration by the FAF in [Appendix 2](#). In [Appendix 3](#), we considered and responded to the questions posed in the Request for Comment – many of which were covered in [Appendix 2](#). The Summary of Our Views which follows further summarizes those perspectives.

We provide our recommendations to the FAF and SEC, which are drawn from those aforementioned perspectives, in the Recommendations section at the end of the letter.

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<sup>5</sup> The FASB website highlights the [four roundtables](#) held with approximately 50 participants of which only 20-25% of participants were users and the vast majority of those users were banks – not equity investors.

## SUMMARY OF OUR VIEWS

Below we highlight our key perspectives (historical and current) on the formation and operation of the PCC.

### *Previous Commentary*

Our [2012](#) and [2015](#) comment letters to the FAF on the PCC and our [2013](#) comment letter to the FASB regarding the definition of a public business entity provide an excellent collection of our investor views on the creation of private company standards and the PCC. We summarize the comments from those three letters in **Appendix 1** and highlight the key takeaways below:

- ***Investors Have Long Supported the Same Accounting and Disclosures for Private & Public Companies: No Demonstration That Different Reporting Requirements Have Been Requested by Private Company Investors*** – Investors allocate capital across public and private companies and private companies compete for capital globally. The lack of comparability brought about by differential standards not only diminishes their ability to compete for capital globally, but also raises their cost of capital – because investors perceive private company standards as lower quality standards, and they price such risk in their cost of capital.

Because of this, over the last decade, we have sought, but not found, evidence, or a compelling argument, that investors in, or lenders to, private companies have different financial reporting objectives or needs. Nor have we found that users of private company financials were requesting a change. We have also noted the lack of engagement of investors in each of the due process steps around the creation of the PCC and the related private company exceptions and alternatives.

- ***What is a Private Company?*** – We note in our original 2012 letter to the FAF, that a private company had not been fully defined.

While we recognize the FASB defined a “public business entity” in 2013 – after our original comment on this issue (i.e., and after the PCC was established) – it is important to also recognize that the FASB still has not defined what a private company is, they have just defined a public business entity. Unfortunately, defining what something is not, is not defining what it is.

Without a private company definition, we don’t believe the Private Company Decision-making Framework can be effective, useful or meaningful to the FASB or PCC. If the characteristics of a private company are not defined, how can:

- 1) the Framework be said to be a meaningful decision-making guide for the FASB and PCC,
- 2) there be justification for why different accounting standards and disclosures are needed,
- 3) standards be seen as fit for purpose,
- 4) a cost-benefit analysis be effectively performed,
- 5) the FASB and PCC know for whom they are setting standards, and
- 6) stakeholders understand their role in due process?

- ***Few Truly Private Companies: Relief Should Be Provided Only to Small Companies*** – We have also stated that we believe investors – because their information needs are not substantially different across entities – have a much broader definition of public business entity than the FASB has set forth and that there are few truly private companies. We have also noted that it is nearly impossible to draw the line between public and private companies – a concern that has only

grown with the growth in private markets (i.e., where the lines have only become more blurred).

There is great diversity in the size of private companies, complexity of the activities they undertake, accounting resources they retain, the nature of those investing in such entities, and the access providers of capital have to management. Previously we provided illustrations of very large private companies which are, because of their capital structure, allowed to apply these lower quality standards.

We note that the feedback received to date on the Request for Comment – and highlighted in the aforementioned Bloomberg BNA article – only continues to highlight the existing confusion over whether the PCC is setting standards for private or small private companies. We address the topic more fully within our Additional Considerations which follow. We have historically stated we believe relief should only be provided to the smallest of companies.

- **Definition of Public Entities Creates Complexity & Confusion** – Additionally, related to the definition of a public business entity, we provided our comments on the FASB’s definition of public business entity in 2013 noting the confusion over the inconsistent definitions throughout the Accounting Standards Codification (“ASC” or “Codification”) of non-public entities and public entities. Some of this confusion has been resolved since then with the updating and conforming of the use of the term public business entities in amendments to the Codification. At that time, we also noted instances – all of which are still relevant – where the creation of private company exceptions creates greater complexity when private companies become public and when private company financial statements appear in a public context.
- **Due Process Concerns Regarding Creation of PCC: Chronology, Focus and Timing** – In **Appendix 1**, as well as in the history included in the Introduction herein, we highlight due process concerns with the chronology of the creation of the PCC, the Private Company Decision-making Framework, the definition of public business entities (i.e., and a failure to define private companies) and the release of proposed standards updates by the PCC. Specifically, the release of proposed standards updates prior to the finalization of the Framework and the definition of the characteristics of a private company. As touched on above, we also noted the lack of investor engagement and input in the PCC formation and the speed with which it was formed during a time when investors had other priorities (i.e., after the Global Financial Crisis).
- **Comparability: Essential to Investors Is Lost** – With investors allocating capital across public and private companies and private companies competing for capital globally, as noted previously, we expressed our concern with the lack of comparability created with the establishment of private company standards. We previously noted the proliferation of accounting and disclosure requirements for emerging growth companies, smaller reporting companies, and now private company standards – highlighting their detrimental impact on comparability. Compounding that problem is the optional adoption of the private company exceptions which only further increases comparability, and complexity, issues for investors.
- **Complexity Arises from Need to Explain Economics: Reducing Accounting Complexity for Preparers Reduces Economic Usefulness of Financial Statements & Simply Transfers Complexity to Investors** – If well written, complexity is not a result of financial reporting standards but of the complexity of underlying transactions. If standard setters develop accounting requirements that best reflect the economics of a transaction, the nature of who owns the entity should not alter the recognition, measurement, and disclosure criteria. Many private companies



engage in highly complex transactions – their ownership structure (i.e., public vs. private) does not alter the need for decision-useful information. We do not find complexity a compelling argument in favor of separate accounting standards for private companies because if the accounting standard was developed by the FASB, based upon the decision-usefulness of information to be provided, that should not change whether the entity engaging in the transaction is public or private. Accounting complexity is only increased for investors because the transaction is not accounted for or disclosed in a decision-useful way.

While seemingly reducing complexity for preparers of private company financial statements, differential standards simply transfer complexity and cost from preparers to investors given their need to understand business transactions and compare investment opportunities.

- **PCC Will Incentivize (Has Incentivized) Backdoor Standard Setting for Public Companies** – In 2013, we highlighted our concern that private company exceptions and alternatives would be used as a back door agenda setting mechanism to alter the reporting requirements for public companies. Our prediction regarding backdoor standard setting occurred, or was attempted, in the context of goodwill. From 2019 through 2022 the FASB considered amortization of goodwill – as was proposed by the PCC for private companies – be implemented for public companies. We devoted substantial time and effort during that time to demonstrating this would reduce the decision-usefulness of financial statements for investors.
- **Costs vs. Benefits of Private Company Standards** – We previously communicated that the costs and benefits of a separate set of accounting standards for private companies had not been fully considered. While preparers’ costs may be reduced, the cost to investors of lower quality, less comparable information had not, in our view, been adequately considered in the cost vs. benefit analysis. Further, how the PCC and FASB perform cost vs. benefit analysis without knowing the characteristics of a private company versus a small private company is not clear. Still further, as we note in the Additional Considerations section, we believe the FASB’s cost vs. benefit analysis is weighted in favor of small private companies despite the FASB being funded by public companies.
- **Concern: What is US GAAP?** – We have expressed concern in our prior correspondence that the development of separate private company standards – along with the optionality it would allow – would raise the question of: What constitutes US GAAP? We also noted that the lack of communication in financial statements regarding what private company options had been elected would only further compound this question.

We noted previously that the proliferation of financial reporting regimes within the United States (the AICPA’s Other Comprehensive Basis of Accounting, the alternatives allowed under the Jobs Act, separate private company standards, and unique reporting requirements for public companies) only serves to increase complexity.

Without appropriate labeling of US GAAP for private companies we have noted that their existence defies the objective of accounting standards which is to create a uniform set of accounting principles upon which investors can rely. It also diminishes the brand of US GAAP.

- **Some Investors Perceive Private Company GAAP is Lower Quality GAAP: Cost of Lower Standards Increases Cost of Capital**– Investors perceive private company standards as lower quality standards, and they price such risk in their cost of capital. We highlight in our Additional Considerations in **Appendix 2** that within the new CFA Private Markets Pathway we advise

candidates of the need to consider the risk of lower quality accounting information from private companies.

- **2015 Investor Outreach on Differential Accounting Standards: Lack of Support for Different Private Company Standards** – In our 2015 comment letter to the FAF we amplified a CFA Institute investor survey and thought leadership paper<sup>6</sup> that we had performed to assess investors support of our concerns related to private company standards. A summary of those results is included in **Appendix 1**. Our previously articulated views (as summarized above) were validated by our investor members. Our outreach to investors was more substantive than we can see has occurred by the FAF, FASB and PCC on the issues of concern to investors.

A significant majority of investors believed that private company standards would decrease comparability, increase complexity, result in a loss of information, and be perceived as lower quality. Those same respondents indicated that access to management would not remediate the loss of information, that large private companies should not be able to apply such exceptions, that complex transactions should be accounted for the same between private and public companies, and that companies should disclose the use of private company standards. And while a majority of investors believed it would reduce preparation costs for companies, a majority don't believe the reduced preparation costs will cover the increase in cost of capital assigned due to the loss of information from lower quality standards.

#### ***Additional Considerations***

In **Appendix 2**, we provide several additional matters related to the PCC and its formation which we believe are necessary for the FAF to consider. We also comment on the operational matters and questions which are the subject of this Request for Comment. We highlight those additional considerations below:

- **Private Company Standards Are Being Created Using Accounting Support Revenue From Public Companies** – As the financial statements of the [FAF](#) and [FASB](#) illustrate, the majority – or entirety in the case of the FASB's funding comes from assessments of public companies based upon [Section 109 of the 2002 Sarbanes-Oxley Act](#). Through such assessments public company investors are funding, through the reduction of retained earnings/profits, the FASB and FAF operations. This funding has dramatically increased the revenues and financial strength of the FAF and FASB since the fees began in 2003.<sup>7</sup>

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<sup>6</sup> CFA Institute published a report, [Addressing Financial Reporting Complexity: Investor Perspectives](#), which incorporates many of the previously articulated concerns and provides investor perspectives, based upon a survey of our members, on the issue of differential accounting standards. The paper also considers the extension of the private company initiative toward the notion of complexity.

<sup>7</sup> In 2002, prior to the existence of accounting support fees, the FAF's revenues were \$21.3 million of which \$6.1 million (29%) was from external contributions. The \$15.2 remainder, 71% of FAF's funding, was from publications. The FAF's net assets at year-end 2002 were \$16.4 million.

In 2003, the FASB's accounting support fees commenced at \$19.7 million doubling the prior year (2002) revenue of \$21.3 million revenue of FASB. The GASB accounting support fees commenced in 2012 at \$8.4 million.



In substance, public companies are funding private companies having a reduced cost of compliance in the application of US GAAP. It seems contrary to the interest of public companies to fund a lower cost of compliance for private companies as well as provide them with the advantage of a greater information asymmetry in the competition for capital.

Private companies aren't simply "free riders" to the public good of the creation of US GAAP. Rather, they are necessitating public company investors to incur additional costs to create these private company standards. This approach disincentivizes the formation of public capital and incentivizes remaining private because it offers lesser accounting and disclosure costs and requirements for private companies, while simultaneously transferring the burden of separate private company standard setting to public companies.

We believe the SEC should consider whether this private company activity should be funded separately in their review of the FAF and FASB's budget.

Under SOX, the PCAOB is funded by similar accounting support fees as is the FASB (i.e., albeit larger as they are also a regulator of public company auditors, not simply an audit standard setter). The PCAOB, however, does not set auditing standards for private companies. This is done by the AICPA – the organization that lobbied for the creation of the PCC.

Unlike for auditing standards which are funded separately and identified differently within audit opinions<sup>8</sup>, the audit opinions and financial statements of private and public companies are both noted as being prepared under US GAAP – despite the standards being different.

- ***The Dichotomy: Private Companies Seeking a Bigger Role in System Funded by Public Companies*** – As the title to the recent Bloomberg BNA article, [\*Private Company Accountants Push for Bigger Role in US Standards\*](#), conveys, despite not funding the FASB, private companies want more say over the FASB's setting of private company standards. As the article highlights, those private company accountants believe the PCC has only just begun its work and has not been responsive to the needs of private companies. They also want broader representation of even smaller private companies on the PCC and within the FASB's standard setting process. The irony of those providing this perspective is that they want representation and accounting relief for private companies from a FASB funded by public companies. Public company investors who are footing the bill for creating US GAAP have the least representation in the standard setting process.

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In 2023, the FAF's budget was \$78.6 million of which \$59.7 million (76%) was accounting support fees paid by investors, the remainder \$18.9 million (24%) of the FAF's funding was publications. The FASB's and GASB's accounting support fees were \$45.3 million and \$14.4 million, respectively, in 2023. The FAF's net assets at year-end 2023 were \$107.0 million – an increase of \$90.6 million from before the support fees began in 2002.

See our discussion in **Appendix 2** regarding the reduction of the accounting support fees based on the revenue earned by the FAF from the licensing of the US GAAP standards and earnings on net assets. In substance, the funding of the FASB's activities via the accounting support fees over the last 20 years has resulted in the maintenance and revenue of this intangible asset, and its earnings, and the earnings from the net assets retained by the FAF.

<sup>8</sup> Audit opinions for public companies note they are audited under PCAOB standards while private companies are noted as being audited under AICPA standards.

- **Who is the Audience for These Standards: Private Companies or Small Companies?** – As we stated in our previous commentary as noted above, we believe there are few truly private companies and that private companies are not necessarily small or less complex. As we read the Bloomberg BNA article noted above, and consider the [comment letters to this Request for Comment](#), we observe that there is a conflation of “private company” and “small private company” by many stakeholders to this process. As we have said in our previous commentary, private companies are not necessarily synonymous with small companies with more limited resources<sup>9</sup>.

Further, as we note in our previously expressed views above, and as we describe more fully in the appropriately labeled section which follows, a credible private company decision-making framework, must include an understanding of the entities applying the standards to make cost vs. benefit analysis and decisions on standards. Overall, it’s difficult to develop a product without knowing who the consumer (i.e., implementer) of the product (i.e., standards) will be.

More than a decade later, the private company initiative suffers from the fact that the PCC was created without clarification regarding the characteristics of a private company. Is it small companies or private companies? The comments reflect there is no unanimity of this point. Most appear to believe it is small companies.

- **The FAF Needs to Empirically Study Private Markets & Private Companies: Private Markets Have Changed Substantially Since the PCC was First Created** – As we stated in our 2015 comment letter to the FAF, the growth in private markets had been significant and appeared poised to be even more significant going forward. While we noted in 2015 our concern over the growth in (and expanded holdings of) private equity and the implications of differential private company standards, the growth in private markets only continued since that time. For that reason, we noted in our 2022 response to the FAF’s strategy consultation that we believed it necessary for the FAF to study private markets to better understand their growth, changes to private companies within those private markets, and the evolution of those investing in private companies within private markets. We illustrate the growth in private markets in **Appendix 2**. We also provide examples from our newly develop CFA Level 3 Private Markets Pathway that acknowledge that there is less information, lower quality information, differential accounting standards and higher risk and greater uncertainty in private company valuation because of this.

It’s likely unequivocal to say that the number of investors using private company financial statements in the US has grown substantially since 2012. The question for the FAF is whether an even bigger private market is sufficient to have investors exposed to a lesser quality of US GAAP. Further, without knowing the addressable market for the standards and without private company US GAAP being labeled differently, it is, in our view, a challenge for the FASB and PCC to make an appropriate cost benefit analysis of the standards and validate the efficacy of the private company decision-making framework.

- **Labeling of Private Company GAAP in Financial Statements and Audit Opinions: Investors Are Not Alerted to Use of Private Company US GAAP** – As we note above, audit opinions utilizing the private company exceptions do not mention this different basis of preparation under US GAAP, though their audit opinions highlight they are audited using different auditing standards. Private company financial statements may describe the application of these exceptions through the description of their significant accounting policies, but they don’t generally note – in an obvious

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<sup>9</sup> An updated list of [America’s Largest Private Companies in 2023 by Forbes](#) again illustrates this point.

manner – in the basis of presentation and significant accounting policies that they are preparing these financial statements on a basis different from US GAAP for public companies. This fails to alert private company investors to a different basis of presentation and lack of comparability. This is not the case for companies applying IFRS for small and medium size entities which are separately labeled as such in the basis of presentation, significant accounting policies and the audit opinions. In the US., public companies that qualify as [smaller reporting companies](#) (SRCs) or [emerging growth companies](#) (EGCs) denote this special filing status on the front page of their SEC filings (i.e., and in some cases the basis of preparation note). This disclosure has the effect of highlighting their more limited disclosure status to alert investors to the lesser basis of preparation and assurance (e.g., no audit of internal controls over financial reporting).

We believe the FASB needs to require that the basis of presentation and significant accounting policies for those applying US GAAP for private companies explain this different basis of preparation – as should the related audit reports issued, much like the AICPA auditing standards are identified – to alert investors to the differences they many need to investigate.

This will serve as a better signaling mechanism for investors.

While the FASB has worried about the creation of “GAAP Lite” – as noted in the Bloomberg BNA article – this has already happened but without it being branded as such and without a clear signaling to investors in the growing private markets.

In our view, the FASB actually does a disservice not only to investors, but themselves, by having an “off-brand private company US GAAP” labeled as US GAAP.

- ***The PCC Has More Significant Powers Than Other Advisory Groups*** – While it is classified as an advisory group on the FASB website, the PCC has a higher-level stature than other advisory groups such as the investor, not-for-profit and small business advisory groups<sup>10</sup>. Not only is it overseen by the FAF rather than the FASB, a review of the [Private Company Council’s section of the FASB’s website](#) – as we illustrate in **Appendix 2** – indicates the PCC is taking decisions and directing the FASB staff to perform work. Unlike other advisory committees the PCC provides decisions on alternatives to existing US GAAP to the FASB which the FASB must then endorse (accept or reject). (See [How Do the FASB and PCC Work Together?](#)) This is not the case with other “advisory groups”. The FASB is not required to accept or reject (i.e., respond to) the views or advice of any other advisory groups. In substance, the FASB is an endorser of the PCC standard – much like the European Financial Reporting Advisory Group (“EFRAG”) is for International Financial Reporting Standards (“IFRS”) in the EU – but not the creator of the standard. Once accepted by the FASB, an Accounting Standards Update (ASU) is issued and specifically attributed (i.e., “a consensus of the Private Company Council”) to the PCC as noted on the cover of the 2014 ASU to change the accounting for goodwill. In many cases today, the PCCs views are incorporated into new standards, rather than separate documents, as we touch on below.

As we noted in our [2012 comment letter to the FAF](#):

...the mission of the FASB 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.... *CFA Institute questions why private companies deserve a higher status in the standards-setting process than users and*

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<sup>10</sup> See FASB Advisory Group at: [Advisory-Groups \(fasb.org\)](#).

*investors..... Why should private companies be allowed to make recommendations, take votes on standards and send recommendations to the FASB for ratification when investors and users are not provided with similar stature and authority?"*

Given that investors are funding the entirety of the FASB standard setting ecosystem for US GAAP, we believe investors should have greater primacy than any advisory group – and certainly higher authority than the PCC which provides no funding to the standard setting ecosystem. Investors should be providing their views directly to the FAF not via the FASB. As we note in our Recommendations which follow, we believe the PCC stature should be changed as we describe there. We also believe investors need to be given a stature as least as high, preferably higher, than any other advisory group.

- **PCC Operating Observations** – We make several observations with respect to the PCC specific organizational and procedural improvements as follows:
  - **Operating Procedures** – Review of the [What are the PCC Operating Procedures?](#) page of the FASB website indicates that in 2019 the FAF took action to lengthen the renewal term of PCC members from 2 to 3 years, for a maximum of six years and that the PCC Chair term was extended to a maximum of 8 years. We do not believe the term of the PCC Chair should be longer than the FASB Chair, as the PCC Chair need only outwait the FASB Chair, who has a seven-year term – on a decision they are not pleased with.
  - **Topics and Documentation: Current FASB Engagement** – From the [Topics page on the PCC section of the FASB website](#) it is challenging to assess the topics currently under consideration without scanning each topic and determining if it has been discussed recently. It would be helpful if the meetings and recaps were listed separately in chronological order and by topic and then there was a separate analysis of their decisions, their endorsement or rejection by the FASB and whether something was ultimately issued.

Currently, the PCC’s recommendations appear to be being incorporated into the standards as they are issued, rather than as separate documents.<sup>11</sup> This makes the private company differences and the PCC’s efforts less obvious to investors and other stakeholders. Consider for example the private company exceptions embedded in the FASB’s 2023 release on [Income Taxes](#)<sup>12</sup> and [Expense Disaggregation](#)<sup>13</sup>.

- **The Private Company Decision-Making Framework Is Flawed** – We have long believed the [Private Company Decision-Making Framework](#) issued in December 2013 – with minimal user or investor input – is flawed. We largely agree with the dissenting view presented by former FASB Board member Smith as presented on Pages 26-30 of the Framework. An excerpt of which is highlighted below:

The primary purpose of the Guide is to assist the Board and the PCC in determining whether and in what circumstances the Board should provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under U.S. GAAP. ***Mr. Smith does not believe the Guide accomplishes that purpose because he does not believe the factors identified to***

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<sup>11</sup> We note from review of the list of exposure drafts and [standards updates issued](#) that the PCC issued four documents in 2014 (2014-2,3,7 and 8), one in 2016 (2016-4) and one in 2021 (2021-07).

<sup>12</sup> Private company considerations and activities of the PCC are described in the Basis for Conclusions at pg. 37-39, 45-46, and 52-56.

<sup>13</sup> Private company considerations and activities of the PCC are described in the Basis for Conclusions at pg. 50-51.

*differentiate the financial reporting considerations of private and public companies are, in some cases appropriate, and in other cases, effective in highlighting where differences may be appropriate.*

We also note Former FASB Board member Smith's [comments](#) in response to this Request for Comment:

I will not repeat all of the arguments I made in my dissent to the Framework, however I ask that you consider the comments I made therein. ***It is my opinion that the Framework does not provide any decision useful information to assist the FASB in deciding whether to create different accounting or disclosure requirements for public and private entities.*** The only specific area where it is somewhat useful is in setting effective dates since private companies frequently use disclosures made by public companies to assist them in learning about the new accounting requirement.

The five significant differentiating factors outlined in the Framework include the following:

1. Number of primary users and their access to management
2. Investment strategies of primary users
3. Ownership and capital structure
4. Accounting resources
5. Learning about new financial reporting guidance

In [our 2015 comment letter](#) to the FAF we noted, for example, that a fundamental tenant of the Framework is that private company users of financial statements have greater access to management. We questioned whether the perceived increased access to management by private company investors had been empirically tested and found to be the case, and if not, whether it should be included as a relevant and mitigating factor in developing standards. We do not believe this assumption is accurate – particularly across an undefined population of private companies, both big and small, with various ownership structures and financing arrangements. We also believe this assumption contradicts the notion of general-purpose financial reporting. Additionally, in our 2015 survey of investors in our report, [Addressing Financial Reporting Complexity: Investor Perspectives](#), we found that 69% believe that access to management won't sufficiently, or aren't sure it will, remediate the loss of information created by private company standards. With the growth in private markets, we believe this (i.e., greater management access) is likely less true today than it was over a decade ago.

Additionally, as we describe above, we disagree with the premise that all private companies have fewer accounting resources.

As we have outlined above, how the Framework could be finalized without defining the characteristics of a private company is curious and whether these standards are for all private companies or just small private companies appears to remain a subject of debate amongst stakeholders.

For these reasons, we believe the Framework needs to be reconsidered as we don't believe the differentiating factors can have been reasonably determined without knowing for whom these standards are created – as the only real differentiating characteristic identified is that they are not public business entities. That distinction does not make these differentiating factors true for all private companies. Defining what something is not, is not the same as defining what it is.

- *Membership: Pure Equity Investors Need to Be Added to Membership* – We layout and analyze the members of the PCC in **Appendix 2**. In summary:
  - Only 2 or 3 of 12 members represent users of private company financial statements.
  - A plurality, 5 of 12, of the members represent accounting firms serving private companies.
  - There is no pure private company equity investor representation on the PCC.

We believe it is critical to increase the representation of equity investors on the board of the PCC. We disagree with the assumption (i.e., that users of private company financial statements are more likely to be lenders than equity holders) that underlies the selection of lenders as members of the PCC – especially in this era of extensive and large-scale private equity investment in private companies.

We have long held the view that one of the primary objectives of financial reporting and disclosure must be to provide all of the information that owners of common equity require to evaluate their investments. In doing so, our view is that all other investors' information needs will have been addressed given that equity holders are the residual interest holders in the enterprise. Accordingly, we strongly urge the FAF to add several pure equity investors to the PCC.

- *Need for PCC Scorecard* – We believe establishing an annual, publicly available scorecard is an essential step in assessing the performance of the PCC against the FAF's objectives for the organization. Producing a scorecard of metrics related to the PCC's processes, activities, and impact/outcomes related to the PCC's objectives as established by the FAF would be useful for stakeholders in responding to the Request for Comment. Without an articulation of objectives, it is challenging for stakeholders, and the FAF to make an assessment of the PCC's operating effectiveness.
- *Private Company Initiative Constrains Advancement on Strategic Priorities* – When public company investors and those who represent them have sought greater focus on strategic issues and secular trends, the FASB has rebuked many of those calls by investors by noting the limitations of private companies, specifically small private companies. This is particularly true as it relates to the FASB's consideration of technology and its use in financial reporting.

Given that these private and small companies are not funding the FASB, it seems inconsistent to constrain the development of decision-useful information for public company investors, because of a cost benefit analysis that heavily weights the impact on small private companies who are not funding the standard setting process.

- *Investor Outreach* – The FASB's investor outreach document makes no mention of their outreach to private company investors or users. We believe the recommendations of the PCC need to be informed by a broader group of investors than the two lenders on the PCC. Private company investor outreach should be done before the FASB agrees to any private company exceptions.



## OUR RECOMMENDATIONS

Despite our aforementioned concerns and the Blue-Ribbon Panel’s observation that: “...*the Panel has not been presented with arguments or evidence that private company financial statements do not meet the needs of users*, the FAF established the PCC and there are now different versions of US GAAP – one for public companies and one for private companies. The private company version also includes optionality with respect to the private company exceptions adopted. Investors, however, obtain and review financial statements and audit opinions which simply refer to one version of US GAAP.

This is a suboptimal situation for investors given that comparability is the life blood of investment analysis. The complexity and cost the FASB and FAF have eliminated for private companies has simply been transferred to investors. They must identify and price these differences.

For that reason, we believe several changes need to be made by the FAF, and considered by the SEC Office of Chief Accountant, to improve the transparency and fairness of the standard setting process for investors. These changes include the following:

- **Define Private Companies: Clarify if Small Private Companies Are the Real Audience for these Private Company Standards** – The FASB needs to define private companies. While they have defined public business entities, they have not sufficiently defined private companies such that they have a decision-making framework that can be applied based on consistent characteristics. A decision-making framework that has characteristics which presume private company investors have greater access to management (i.e., especially with greater proliferation of investors in private companies via the growth in private markets) and less accounting resources given the diverse size of private companies does not appear accurate for such a large swath of companies.

Further, without understanding if the real audience for the standards is small private companies, the FASB’s stakeholders – as we see in this Request for Comment – conflate private companies with small companies. Additionally, this lack of clarity on small private companies versus private companies is muddling the FASB’s cost vs. benefit analysis and inhibiting progress in standard setting for public company investors who fund the FASB. A cost benefit analysis for the largest US public companies is not the same as a small private company. As we have experienced it (i.e., particularly in the FASB’s consideration of technology), the FASB’s cost vs. benefit analysis is performed with the smallest companies’ capabilities and cost constraints driving its decision-making.

We think there should only be exceptions for small private companies. And we think implicitly the private company initiative is a small private company initiative, but this is not clearly defined for the FASB’s stakeholders. We believe this needs to be explicitly articulated.

- **Labeling of Private Company Standards Application** – We believe the financial statements prepared using private company exceptions should be appropriately labeled as prepared “in accordance with US GAAP for private companies” or “in accordance with US GAAP for small companies” so as to alert investors to the need to make appropriate analytic adjustments. Audit opinions should also make reference to this different basis of preparation.

Without appropriate labeling of US GAAP for private companies – their existence of which defies

the objective of accounting standards which is to create a uniform set of accounting principles upon which investors can rely – diminishes the brand of US GAAP.

- **Separate Small Private Company Board & Funding** – Given the current state of play – that we have two versions of US GAAP – we think it is important to acknowledge and clarify this for capital markets participant not only with the labeling of the financial statements, but with a separate subsidiary board of the FASB, such as was proposed in the Blue-Ribbon Panel. In our view, the PCC should be reconstituted as a subsidiary board of the FASB – not a council of the FAF. We believe its powers should be adjusted accordingly.

Additionally, this private company board should be funded separately by private company stakeholders rather than with public company accounting support fees as it seems unreasonable to require public companies to fund standards that provide private companies with cost savings and a greater information asymmetry in the competition for capital between public and private markets. Just as public company investors don't pay for private company auditing standards, we believe they should not pay for separate private company accounting standards.

- **Body of Knowledge/Standards** – The FASB should provide a separate compilation (body of knowledge) of private company (i.e., or small private company) exceptions such that investors can easily identify, research and understand the full complement of private company exceptions rather than searching the Codification for each difference.
- **Separate Cost vs. Benefit Analysis for Public Companies** – The FASB should perform separate cost vs. benefit analysis for standard setting related to public companies vs. small private companies – as well as in the consideration of strategic issues, such as technology. This will ensure small private company considerations do not delay necessary reforms for public companies and impede the FASB and US GAAP's relevance for public company investors. This process would ensure FASB's focus is clearly on those funding the standard setting process and its long-term relevance.
- **Greater Engagement of Equity Investors** – The FASB should engage more equity investors in the private company standard setting process<sup>14</sup> and their annual investor outreach report should highlight the private company investor outreach they have completed.
- **Establish FAF Level Investor Advisory Council** – Presently, the FASB's investor advisory group meets periodically and most of its meetings/discussions – other than a few minutes at the end of the meeting – occur out of public view. FAF members responsible for the oversight of FASB and the custody and administration of the accounting support fees funded by investors do not appoint members of the current FASB investor advisory group nor do they participate in such meetings or partake in investor engagement.

Given the mission of the FAF, and their responsibility to use the accounting support fees in the interest of public company investors, we believe the FAF should establish its own investor advisory council<sup>15</sup> such that they can hear directly about standard setting and due process issues on a regular basis from investors – those who are to be the center of the FASB and FAF's mission. This would also add credibility to the FAF's efforts.

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<sup>14</sup> Whether in the existing or proposed format, equity investor engagement must be more significant.

<sup>15</sup> This is not an investor advisory council that would be focused on private companies but one focused on the FASB's activities overall.

We believe the newly created FAF Investor Advisory Council should have powers at least equal to, actually greater than, the existing PCC. For example, such council should have the authority to recommend eliminating projects on the FASB's agenda which do not benefit investors.

In sum, we think the FAF must acknowledge that we have two separate versions of US GAAP in a market where investment in private markets and private companies has grown since they created the PCC. Making this recognition is important to retaining the brand of US GAAP for public companies as well as alerting investors to the difference for private companies such that they can undertake the analytical work transferred to them and go about pricing these differences in a world where there is even greater need for capital allocation decisions across public and private markets.

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Thank you again for the opportunity to comment.

Sincerely,

CFA Institute

cc: Corporate Disclosure Policy Council