May 23, 2024

PCC Review
Financial Accounting Foundation
801 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Reference – PCC Review

RSM US LLP

30 South Wacker Drive
Suite 3300

Chicago, IL 60606

www.rsmus.com

Ladies and Gentlemen:

RSM US LLP is pleased to provide feedback on the Financial Accounting Foundation's (FAF or Foundation) Request for Comment concerning the Foundation's Review of the Private Company Council (PCC or Council).

Overall, we believe that the PCC has served as a valuable advisory group for the Financial Accounting Standards Board (FASB or Board). The PCC has effectively advised the Board on matters relevant to private companies and making recommendations on alternative accounting treatments for these entities. However, to improve the Council's ability to identify, evaluate and propose alternatives to Generally Accepted Accounting Principles (GAAP) for private companies, we recommend:

- Expanding the PCC's stakeholder outreach efforts
- Enhancing the PCC's agenda evaluation criteria
- Having the FAF reconsider the size and composition of the PCC

We believe that targeted improvements in each of these areas could result in the development of accounting alternatives for private companies, in a timely manner, that meet the objectives of financial reporting and the needs of the users of private company financial statements.

Further, as detailed later in our letter, we recommend that the FASB and PCC work with the United States Securities and Exchange Commission (SEC) to pursue regulatory relief through the following actions that would reduce the cost of financial reporting for certain entities:

- Modify the definition of a public business entity (PBE) in the Master Glossary of the Accounting Standards Codification (ASC) to exclude non-issuer broker-dealers
- Consider allowing exceptions for the continued use of certain previously elected private company accounting alternatives, or allowing transition relief the first time an entity's historical financial statements are included in a public filing

We also recommend that the FASB work with the PCC and resurrect discussions that began in 2015 to develop additional guidance in ASC 250, *Accounting Changes and Error Corrections*, to help private companies assess preferability, not only for those circumstances specifically related to the re-election of a private company accounting alternative, but for any change to an acceptable alternative accounting principle.

Our responses to the questions posed in this Request for Comment are included in the remainder of this letter.

RSM US LLP is the U.S. member firm of RSM International, a global network of independent assurance, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

Responses to Questions for Respondents

Question 1. A principal responsibility of the PCC is to serve as the FASB's primary advisory body on the appropriate treatment for private companies on issues that the FASB is actively considering. Do you think that the PCC has been effective in assisting the FASB in its standard-setting process for active projects? Please explain.

Overall, we believe that the PCC has been effective in representing the interests of private companies in the FASB standard-setting process.

For example, we believe that the PCC effectively advised the Board on the recently issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which contributed to the FASB's decision to exempt private companies from the more onerous disclosures required by PBEs related to the effective tax rate reconciliation. Similarly, the PCC's counsel appropriately informed the Board's decision to exclude private companies at least tentatively from the scope of its Disaggregation of Income Statement Expenses (DISE) project.

More recently, the PCC did a good job explaining to the FASB how their tentative decisions on the accounting for and disclosure of software costs and government grants projects may impact private companies, including the users of their financial statements.

Question 2. What improvements, if any, are needed to ensure the PCC is an effective advisory body to the FASB on issues that the FASB is actively considering?

We recognize the challenges of receiving feedback from private companies, which often lack the resources and time to monitor and comment on the standard-setting activities of the FASB. That's why the PCC's outreach to stakeholder groups like the Institute of Management Accountants Small Business Committee, the American Institute of Certified Public Accountants (AICPA) Private Companies Practice Section's Technical Issues Committee and the Risk Management Association Accounting Working Group is critical to understanding the challenges faced by private companies. The PCC Forums at the annual AICPA ENGAGE Conference and the National Advanced Accounting and Auditing Technical Symposium provide further mechanisms for the committee to solicit feedback from those actively engaged in the accounting profession.

To facilitate earlier identification of possible challenges that private companies might encounter with proposed updates or adopting new standards, the PCC should consider expanding its outreach efforts to include a broader assortment of organizations, including different state societies of certified public accountants (CPAs) and state and local Chambers of Commerce. Furthermore, in our response to Question 6, we propose additional suggestions concerning the PCC's size and composition that could potentially enhance its advisory function to the FASB.

Question 3. Another key responsibility of the PCC has been to review and propose GAAP alternatives that will sufficiently address the users of private company financial statements. Do you think that the PCC has been successful in proposing alternatives within GAAP to address the needs of users of private company financial statements? Please elaborate.

Overall, we believe that the PCC has been successful in proposing GAAP alternatives to sufficiently address the needs of users of private company financial statements.

Virtually all the adopted PCC alternatives represent significant simplification of GAAP for private companies. The simplifications related to the application of ASC 805, *Business Combinations*, in the areas of recognition of intangible assets and goodwill impairment testing and the application of ASC 810, *Consolidations*, to variable interest entity consolidation are just two examples of PCC alternatives that have proven very helpful to private companies' cost of compliance without sacrificing the usefulness of their financial statements.

During its April 18, 2024, meeting, the PCC discussed trends, concerns and observations affecting private companies, including a list of factors it developed for prioritizing those issues with financial reporting implications that it would attempt to address. We commend the PCC's initiative to develop an agenda prioritization framework, which we believe can help increase the speed with which solutions are identified to address stakeholder needs.

Please refer to the "Other recommendations" section of this letter for some suggested topics where we believe the FASB can work with the PCC and SEC to clarify the application of existing GAAP for private companies, reconsider the definition of public business entities and consider transition relief when private companies become public companies.

Question 4. Do you think that the FASB has been appropriately responsive to the needs of private companies and the recommendations of the PCC?

We believe that the FASB has been responsive to the needs of private companies and the recommendations of the PCC. In our opinion, the accounting alternatives proposed by the PCC and the various deferrals of the effective dates of several ASUs have provided much needed relief to private companies.

Question 5. Do you think that changes to the standard-setting process for private companies are warranted?

In forming the PCC, the FAF rejected the suggestion of the Blue-Ribbon Panel on Standard Setting for Private Companies' Report that would have created a separate standard-setting board to develop appropriate and sufficient exceptions and modifications to GAAP for private companies. We continue to believe that decision was correct.

Question 6. Do you have any suggestions about changes to the size, composition, term length, or responsibilities of the PCC?

Although the size and composition of the PCC has generally worked well to support the FASB's standard-setting activities for private companies, we believe expanding the size of the Council (i.e., adding another two to four members) and some reconsideration of the FAF's criteria for participation on the PCC would be helpful.

We commend the recent addition to the PCC of a representative from a larger mid-tier public accounting firm that serves private company clients of all sizes and that operate in a wide variety of industries. We believe the representation of these larger firms on the PCC can be very helpful because they generally possess the infrastructure and resources necessary to help their representatives effectively fulfill their PCC responsibilities and commitments to the FASB. These larger firms also possess insights into the challenges faced by PBEs as they adopt new ASUs. As PBEs are typically required to adopt ASUs in advance of private companies, the insights they possess could help accelerate the identification of additional challenges private companies are likely to face upon their adoption of new standards. In turn, they may be more likely to suggest possible accounting alternatives or practical expedients that may be appropriate for these entities and the users of their financial statements. Accordingly, we recommend that the FAF consider amending the PCC's Responsibilities and Operating Procedures to add specific criteria for the accounting firms from which practitioner members are selected. Under these criteria, the PCC would seek the participation at all times of at least three of the larger nationally recognized mid-tier accounting firms that serve a large number and variety of both private and public companies. Our recommendation is to expand the practitioner representation on the PCC, not to replace the existing composition.

Notwithstanding the valuable insights that practitioners bring to the PCC, there is no substitute for preparer representation on the Council. We recognize the current preparer representation on the PCC and believe they do an excellent job contributing to discussions and offering important perspectives for the FASB's consideration. However, we believe expanding the number of preparer representatives on the PCC by one or two members would be helpful by offering even more perspectives on how the FASB's standard-setting activities may impact reporting entities with unique reporting challenges across a wider range of industries.

Another potential benefit of expanding the size and composition of the PCC would be the greater ability to engage in stakeholder outreach efforts.

Question 7. What other organizational changes or procedural improvements to the PCC or its process would you suggest and why?

Except as noted in our responses to Questions 2 and 6 above, we do not propose any other organizational changes or procedural improvements to the PCC or its process.

Other recommendations to the FAF to improve the effectiveness of the PCC

To further reduce the complexity and cost of private companies applying GAAP, we recommend that the FASB work with the SEC to pursue regulatory relief in a couple of areas that we believe could significantly enhance the cost-saving benefits of electing the PCC alternatives. Further, we recommend that the FASB also work with the PCC to develop guidance to help private companies assess the preferability of accounting alternatives both when a private company is abandoning a previously selected private company accounting alternative and when, due to changes in circumstances, it wishes to reapply the private company accounting alternative.

Initiatives involving the SEC

- We recommend that the FASB work with the SEC to reconsider what constitutes a PBE, which the ASC Master Glossary defines as "any business entity or a not-for-profit entity that is required to file financial statements with the Securities and Exchange Commission (SEC)." Because non-issuer broker-dealers registered with the SEC under the 1934 Act are required to file a complete set of audited financial statements with the SEC on at least an annual basis, they meet this definition. As such, these entities are subject to the more complex and expansive disclosure requirements of GAAP.

  We believe that broker-dealers should be scoped out of the PBE definition and should be able to elect private company accounting alternatives when they are closely held (which is the case in the majority of instances) because, other than the owner and management of the broker-dealer entity, the primary user of the financial statements is the SEC's Division of Trading and Markets. Broker-dealers are required to file their audited annual financial statements with the SEC to help the regulator assess the entity's compliance with certain net capital and customer protection rules,[1] not to assist investors or creditors to make capital allocation decisions. It is also important to note that these entities' complete set of audited financial statements filed with the SEC are generally not made publicly available because they are permitted "confidential treatment" if the broker-dealer also files an audited statement of financial condition in a format that is consistent with Form X17A-5, Part II or Part IIA, and meets certain other administrative requirements. In our experience, virtually every eligible broker-dealer files for confidential treatment. For these reasons, we are concerned that the costs incurred by non-issuer broker-dealers to comply with PBE GAAP requirements may often outweigh any incremental benefits to the financial statement users.

- When a private company is acquired by a public entity, it needs to stop using any private company accounting alternatives and must restate its previously issued financial statements to reverse the effect of those alternatives (using PBE GAAP) if they materially affect the consolidated financial statements of the public entity. Similarly, a private company that pursues an initial public offering (IPO) is also required to suspend its use of any private company alternatives and, in some instances, retrospectively adjust previously issued financial statement to reverse the effects of those alternatives to comply with SEC registration requirements. This restatement process can be costly and time-consuming and, in some instances, it may not yield financial statements that provide more decision-useful information to investors.

  For those reasons, we believe the FASB should work with the SEC to consider allowing exceptions for the continued use of certain previously-elected private company accounting alternatives or for transition relief the first time an entity's historical financial statements are included in a public filing, if not for all entities converting from private to public, at least for those entities that would qualify to be designated as either a smaller reporting company or an emerging growth company.

  For example, we believe the alternative accounting available under ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*, should be permitted through the beginning of the most recent full-year financial statements presented in an SEC filing. In other words, PBE accounting would be applied prospectively, beginning with the most recent annual period presented. We believe the cost of applying PBE accounting retrospectively without the benefit of hindsight outweighs the benefits. Also, because there are mixed views about the usefulness of PBE accounting for goodwill compared to the private company alternative, we believe simply disclosing the amount of goodwill amortization expense included in each of the income statements presented, combined with additional disclosures explaining the difference between the two methods of accounting, should be sufficient to bridge the gap for the historical periods presented.

  Other private company accounting alternative elections or practical expedients that we believe an entity should be permitted to continue to apply for transactions or contractual arrangements that were executed before an IPO or before the entity was acquired by a PBE include:

[1] To assist with their oversight, broker-dealers are also separately required to provide the SEC with other non-GAAP information about the nature of their business activities and operations.

Accounting Standards Update	Potential Transition Alternative
ASU 2014-18 – *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*	Continue carrying any identifiable intangible assets recorded as part of goodwill and assess for impairment prospectively under the provisions of ASU 2017-04.
ASU 2021-07 – *Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share Based Awards*	Permit the continued use of the IRC section 409(a) valuation practical expedient unless the share-based awards are modified.
ASU 2021-09 – *Leases (Topic 842): Discount Rate for Lessees that are Not Public Business Entities*	Permit the continued use of the risk-free rate for all lease arrangements where the practical expedient was previously elected unless the lease is modified.
ASU 2023-01 – *Leases (Topic 842): Common Control Arrangements*	Permit entities to use the written terms of the common control lease arrangements as a practical expedient.

Accounting for changes in accounting principles

We suggest that the FASB reconsider the guidance in ASC 250 to clarify how a private company may evaluate whether a change in accounting principle is preferable.

ASC 250 requires that an accounting principle used for preparing financial statements be consistently applied when accounting for events and transactions that are alike. However, an entity may change an accounting principle if it supports the use of an acceptable alternative accounting principle on the basis that it is preferable.

ASC 250 does not provide much guidance for assessing the reasonableness of a voluntary change in accounting principle. As a result, diversity exists in how to assess preferability. Although SAB Topic 6.G.2.b (codified in ASC 250-10-S99-4) provides some interpretive guidance to help drive more consistent judgments across PBEs, that guidance does not consider factors that are more relevant for private companies. ASU 2016-03*, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance,* included transition provisions that allow private companies to forgo a preferability assessment the first time they elect those accounting alternatives; however, that ASU did not provide any guidance on how to assess preferability for any subsequent change to an accounting policy election.

We recommend that the FASB work with the PCC and resurrect discussions that began in 2015 to develop additional guidance in ASC 250 to help private companies assess preferability, not only for those circumstances specifically related to the re-election of a private company accounting alternative, but for any change to an acceptable alternative accounting principle. Although there are many ways this may be accomplished, we believe that updating the guidance in ASC 250 to incorporate some form of the “differential factors” used in the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies (the Guide) could serve as a solution, or at least a good start.

For example, for purposes of assessing whether the re-election of a private company accounting alternative is preferable, we believe the number of primary users and their access to management, investment strategies of primary users, and ownership and capital structure are relevant differential factors from the Guide that could be considered. A change in a private company's strategy or long-term business plans (e.g., deciding to abandon plans for an IPO) along with the cost-saving benefits obtained from applying a private company accounting alternative would seem to be a reasonable basis on which to render adoption of that alternative as preferable.

We appreciate this opportunity to provide feedback on the FAF's request for comment concerning the Foundation's review of the PCC and would be pleased to respond to any questions the FAF or its staff may have concerning our comments. Please direct any questions to Richard Daisley at 267.515.5148 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP