

Report of Private Company Financial Reporting Committee 2008

The Private Company Financial Reporting Committee (“PCFRC”) is part of a broad initiative by the Financial Accounting Standards Board (“FASB” or “the Board”) and the American Institute of Certified Public Accountants (“AICPA”) to further improve the FASB's current standard-setting process to better meet the financial reporting needs of private companies and the users of their financial statements. The PCFRC considers user needs and conducts cost-benefit analysis to make formal recommendations to FASB about existing and prospective GAAP. Under protocols set up with the FASB, the Board must consider all recommendations. Decisions made concerning those recommendations become a part of the Board minutes.

Committee Membership

In addition to the chair the PCFRC consists of 4 preparers and 4 users of private company financial statements as well as 4 CPA practitioners who serve private companies. During 2008 three CPA practitioners resigned due to work related conflicts. They were replaced with practitioners from various size firms. Our venture capitalist user resigned and we replaced her with another venture capitalist. Two preparers also resigned and one was replaced. There is an opening for a preparer and several candidates are under consideration. We have discovered that preparers from small private companies are difficult to find. This is due not only to their time constraints but also because they tend to rely on their CPA firm to keep them up to date. We believe that some turnover is a good thing in that new members bring fresh perspective to the group. Turnover also allows us to seek candidates with specific experience and backgrounds for upcoming projects.

Meetings

The PCFRC held five meetings during 2008: January in New York City, April in San Diego, June in Atlanta and September in Boston. Our November meeting in New Orleans included a joint session with the AICPA’s Technical Issues Committee. We had interested constituents at each meeting and they were given privilege of the floor.

International Convergence

There is a great deal of interest among our constituents in what will happen to private companies when public companies are required to report under IFRS. In January the PCFRC had an education session on IFRS. In April we prepared a discussion paper outlining five possible scenarios for private companies and these have been presented at various conferences to provoke discussion. The PCFRC Chair participated in FASB’s Roundtable on International Convergence in June speaking on behalf of private companies. The PCFRC Chair wrote an article about the possible roadmap ahead for private companies published in *Florida CPA Today* magazine and received a number of emails in response. The PCFRC continues to follow IASB’s project on *IFRS for Private Entities* as a possible answer for private companies in the US, especially since the AICPA has approved the IASB as a body authorized to promulgate GAAP. The issuance of the SEC’s proposed rule *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with IFRS by U.S. Users* in November has added some urgency to the issue. The PCFRC is monitoring and making recommendations on all IASB/FASB joint projects with the

expectation that the final standard will take into account private company issues. The PCFRC will take the lead in speaking for private companies as convergence moves forward.

Recommendations to FASB and Other Project Activities

The PCFRC issued the following recommendation letters to FASB during 2008. All letters are posted to our website at www.pcrf.org.

Recommendations to the FASB on FIN 46(R)

This pronouncement continues to be troublesome for private companies and the PCFRC issued the following letters:

- October 30, 2008: Comment letter on the Exposure Draft, Proposed Statement of Financial Accounting Standards - Amendments to FASB Interpretation No. 46(R)
- July 18, 2008: Recommendation on FIN 46(R), Consolidation of Variable Interest Entities
- May 23, 2008: Recommendations about the FASB's project titled Reconsideration of Interpretation 46(R)

Recommendations to the FASB on FIN No. 48

Private Companies received a one year delay in implementing FIN 48 for 2008 as a result of FSP FIN 48-2. Questions continued to be raised about how pass through entities should apply this FSP and as a result, private companies received yet another one year delay while the Board considers guidance for pass through entities and exemption from some disclosures.

- December 3, 2008: Comment letter on FSP FIN 48-c
- September 23, 2008: Recommendations
- May 30, 2008: Recommendations
- January 17, 2008: Comment letter to the FASB on FSP FIN 48-b

September 29, 2008: Comments to the FASB on Preliminary Views, Conceptual Framework for Financial Reporting: The Reporting Entity

September 29, 2008: Comments to the FASB on Exposure Draft, Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information

August 8, 2008: Comment Letter on Proposed Statement of Financial Accounting Standards, Disclosure of Certain Loss Contingencies

May 23, 2008: Recommendations to the FASB on Preliminary Views, Financial Instruments with Characteristics of Equity

February 8, 2008: Recommendations to the FASB about the joint FASB-IASB project on Financial Statement Presentation

February 1, 2008: Letter to FASB re: Improvements to the FASB's Standards Release Process

February 1, 2008: Letter to the FASB staff about the definition of a private company

Other FASB Related Activities

June, 2008: PCFRC Chair participated in FASB Forum on International Convergence, New York City

June, 2008: PCFRC Chair participated in FASB semiannual update webcast

August, 2008: PCFRC Chair and other PCFRC members participated in a User Panel convened by FASB to discuss FIN 48 and other issues

September, 2008: PCFRC Chair participated in FASB's Liabilities and Equity Roundtable

September, 2008: PCFRC attended the FASAC retreat

November 6, 2008: PCFRC Chair participated in FASB FIN 46 Roundtable

December, 2008: PCFRC Chair attended SBAC meeting

Direct Outreach

The PCFRC continues to expand its Resource Group which is an email list of 450 individuals who have signed up on the website to receive updates about PCFRC activities and participate in outreach activities. During 2008 we reached out to the Resource Group for input on our various projects.

To better fulfill our mission, the PCFRC sought assistance from users of private company financial statements (bankers, sureties, venture capitalists, non-management shareholders, etc). We have formed a "User Group". This is an email list of interested users of private company financial statements. The PCFRC will email this group with specific questions or issues in order to obtain input for our recommendations to the FASB. The User Group members will respond as individuals, not as representatives of their employers or organizations. From time to time the FASB may want to hear directly from users as they did in August while considering changes to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. In that case, the PCFRC arranged for a panel of users to meet directly with Board members. Should the need arise for another panel, the PCFRC will solicit volunteers from our User Group.

Other Outreach

March, 2008: PCFRC Chair attended inaugural meeting of Institute of Management Accountants (IMA) Small Business Accounting and Regulatory Committee- Dallas, TX

May, 2008: PCFRC Chair attended Financial Executives Institute (FEI) Private Companies Committee meeting and spoke at FEI annual conference- Phoenix, AZ

June, 2008: PCFRC Chair attended AICPA Business and Industry Executive Committee Meeting

September, 2008: PCFRC Chair attended AICPA Technical Issues Committee Meeting, Norwalk CT

October, 2008: PCFRC Chair spoke at National Association of State Boards of Accountancy annual meeting, Boston MA

Other Speaking

Chair

AICPA Practitioners Conference
North Carolina Association of CPAs Members in Business and Industry Spring Conference
Maryland Association of CPAs Business and Industry Committee meeting
Pennsylvania Institute of CPAs annual meeting
American Accounting Association annual conference
California Society of CPAs webcast
Michigan Society of CPAs Small Practitioners Conference
Louisiana Society of CPAs Accounting and Auditing Conference
Connecticut Society of CPAs Audit and Accounting Committee Meeting
California Society of CPAs Annual Accounting and Auditing Conference- LA and San Francisco
Michigan Society of CPA's Fall Accounting Conference
Utah State University Accounting Conference
Practitioners Publishing Company Accounting and Auditing Conference

Committee Members

Midwest Finance Annual Meeting San Antonio
AICPA Controller's Conference, Las Vegas
Risk Management Association Annual Conference, Baltimore
Risk Management Association Webcast
AICPA Controller's Conference, Orlando
RSM McGladrey Contractor Conference, Boston