Responsibilities and Operating Procedures of the Private Company Council

INTRODUCTION

In May 2012, the Financial Accounting Foundation (FAF) Board of Trustees (Trustees) issued a report, *Establishment of the Private Company Council*, establishing the Private Company Council (PCC) to improve the Financial Accounting Standards Board (FASB)'s standard-setting process for private companies. The Trustees have oversight responsibility for the PCC.

PCC MEMBERSHIP AND RESPONSIBILITIES

PCC Membership and Terms

The PCC comprises 9 to 12 members, including a Chair. Members of the PCC, including the Chair, are appointed by the FAF Trustees. The Trustees also may appoint one or more members of the PCC as Vice-Chairs. The PCC's membership includes individuals with backgrounds and experience in using, preparing, and auditing (including compiling and reviewing) private company financial statements. Members of the PCC, including the Chair, will demonstrate (1) a keen interest in and knowledge of financial accounting and reporting matters, (2) experience working with private companies, and (3) a commitment to improving financial reporting for users of private company financial statements.

Members of the PCC, other than its Chair, are appointed for a term expiring no later than December 31st of the third full calendar year following their appointment and may be reappointed for an additional term of up to three years (for a total of six full calendar years following their appointment) and serve without remuneration, but will be reimbursed for actual out-of-pocket expenses incurred in connection with PCC activities as they may request, provided that those expenses comply with FAF travel and expense reimbursement policies.

Membership tenure may be staggered for some members to establish an orderly rotation and maintain appropriate continuity on the PCC. In making reappointment decisions, the FAF Trustees will consider the overall composition of the PCC and the following factors about PCC members eligible for reappointment:

- Consistently attends meetings (ideally an individual would miss no more than two meetings in three years).
- Adequately prepares for and actively participates in meetings.
- Appropriately considers the *Private Company Decision-Making Framework* in reaching conclusions (see footnote 1).
- Demonstrates a technical understanding of financial accounting and reporting matters and experience in private company financial accounting and reporting that is relevant and at the level necessary to be an effective advisor to the FASB on private company matters.

The PCC Chair may be appointed for such term as the FAF Trustees determine necessary to achieve the objectives of the PCC and allow for an effective transition and continuity of the Chair's role; provided, that the aggregate consecutive years for which an individual may be appointed to serve as Chair of the PCC shall not exceed eight (8) full calendar years (including for this purpose any full calendar years served as a non- Chair member of the PCC). The PCC Chair may receive remuneration as determined by the Trustees.

Responsibilities of the PCC

The PCC is the primary advisory body to the FASB on private company matters. The PCC uses the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*[1] (Guide) to advise the FASB on the appropriate accounting treatment for private companies for items under active consideration on the FASB's technical agenda and on possible alternatives within GAAP to address the needs of users of private company financial statements.

Any proposed changes to GAAP are subject to endorsement by the FASB and thorough due process.

Roles and Responsibilities of the PCC Chair and Members

All members of the PCC, including the Chair, will have a strong appreciation for the importance of independent standard setting for financial accounting and reporting and be committed to the mission of the FAF and FASB.

Members will demonstrate a concern for the public interest and will have an appreciation for the varying interests and perspectives of investors, lenders, and other users of private company financial information and the preparers and auditors of private company financial statements.

Members will demonstrate the ability to work collegially and to understand and respect conflicting viewpoints. They will have the ability to consider the evidence on all sides of an issue, analyze it objectively in forming a view, and clearly articulate that view.

Members must commit to the time to prepare for and attend meetings of the PCC. They are expected to review related background material prior to meetings and actively participate in discussions. Members are expected to participate in working groups as requested by the Chair and, to the extent their schedules allow, in outreach activities conducted by the FASB on issues related to private companies.

Membership on the PCC is personal to appointed members; functions of members or their attendance at meetings shall not be delegated to others. Members are expected to represent their individual views regardless of employer or association membership affiliations.

In addition to the responsibilities that apply to all PCC members, the PCC Chair is responsible for, among other functions, the following:

- Serving as the primary point of contact between the PCC and FASB members and staff, the FAF Trustees, and private company stakeholders.
- Managing the PCC technical agenda in consultation with the PCC Technical Agenda Consultation Group.
- Creating working groups within the PCC to provide the FASB with input on private company considerations (as deemed needed).
- Planning and leading PCC meetings.
- Implementing and directing the broad operating processes of the PCC.
- Ensuring due process.
- Ensuring that the PCC is prepared to discuss and consider issues on both its technical agenda and meeting agendas in an effective and timely manner.
- Guiding discussions at PCC meetings to ensure an effective and timely communication of views and conclusions reached by the PCC.
- Providing input to the FASB on the PCC's activities as part of the FASB's annual operating budget planning process.
- Providing input to the Trustees on the appointment and reappointment process for PCC members.

[1] In December 2013, the PCC and the FASB issued the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies (Guide). The Guide assists the FASB and the PCC in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under GAAP.

The PCC Chair works cooperatively with the FASB liaison member, the FASB Chair, and the FASB Technical Director to accomplish the functions of the PCC and to help facilitate the work of the FASB with respect to private company standard- setting activities. The PCC Chair, in consultation with the FASB Technical Director, will assess the level of FASB staff and resources that are necessary to support the PCC and has input on performance evaluations of FASB staff specifically assigned to support the PCC.

The PCC Chair is responsible for providing periodic reports to the FAF Trustees (or a designated committee of the Trustees).

ROLE OF FASB MEMBERS AND STAFF

FASB Liaison

The FAF Trustees will appoint a member of the FASB to serve as a liaison between the FASB and the PCC. The primary purpose of this liaison role is to facilitate communications and collaboration between the PCC and the FASB. The FASB liaison is not a member of the PCC.

The FASB liaison and all FASB members are expected to attend and participate in all deliberative meetings of the PCC. Participation by FASB members will facilitate their understanding of private company stakeholder perspectives and PCC members' views and is expected to enable a more efficient FASB endorsement process. FASB participation also will assist the PCC in considering potential concerns or alternatives raised by FASB members.

FASB Staff Support

The FASB Technical Director will assign specific members of the FASB's technical and administrative staff—some of whom will be dedicated, some of whom will be assigned as needed based on their specific technical expertise—to support the PCC. In consultation with the PCC Chair, the FASB Technical Director will identify additional technical staff with specific subject area expertise for particular issues as determined necessary. The assigned FASB technical staff will provide assistance and support to the PCC that will include, among other things, the following:

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

Assigned staff also will provide administrative support to the PCC Chair in organizing meetings; preparing meeting announcements, agendas, materials, and minutes; preparing other public updates; and coordinating any additional PCC activities as determined to be appropriate. Meeting materials should be given to the PCC members generally two weeks in advance to ensure that members have adequate time to prepare. In determining how far in advance to distribute meeting materials, the staff should consider the amount of time PCC members may need to study the issues and seek input from private company stakeholders.

The FAF Trustees expect that the PCC Chair and members will have a significant level of direct interaction with assigned members of the FASB staff.

OVERSIGHT OF THE PCC

The FAF Trustees' Standard-Setting Process Oversight Committee (SSPOC) has primary oversight responsibility for the PCC. The SSPOC holds both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The SSPOC includes individuals who have private company experience. The PCC Chair provides periodic reports to the FAF Board of Trustees or its designated Committee. FAF Trustee oversight and monitoring activities are ongoing and include monitoring of PCC meetings.

PCC OPERATING PROCEDURES

PCC Role in Projects on FASB Technical Agenda

For projects under active consideration on the FASB's technical agenda, the PCC will advise the FASB about the implications for private companies. The PCC will work actively and closely with the FASB during its deliberations on projects for which the FASB and/or the PCC believe the private company perspective is important. PCC members individually and collectively will ensure that their point(s) of view on any issue for which they are providing advice to the FASB is clearly articulated. The PCC may provide individual PCC member feedback to the FASB or vote to reach a consensus about providing a recommendation to the FASB for the appropriate treatment for private companies on active FASB projects. Those recommendations, which should be documented and include supporting rationale, will be considered by the FASB in its deliberations. The FASB will be responsible for documenting, in the basis for conclusions of its proposed and final Accounting Standards Updates, how it separately considered the needs of private companies and the recommendations from the PCC.

Working Groups

Upon recommendation by the PCC Chair, working groups will be established so that PCC members can effectively advise the FASB on the impact that alternatives might have on private company stakeholders. The PCC Chair will appoint members to each working group based on their experience and expertise. Working groups may include non-PCC members as well as PCC members. The working group will be responsible for communicating directly with the FASB staff assigned to the project, providing input regarding private company considerations, and assisting with outreach and the development of accounting alternatives. PCC working groups will report to the PCC on their progress at regularly scheduled PCC meetings and between PCC meetings through electronic or other means, as needed.

Regular Communication between the PCC and FASB

There should be regular communication between the PCC and FASB members (and staff) on FASB projects for which the PCC is advising. The purpose of that communication is twofold: to keep PCC members apprised of FASB's progress on those projects in a timely manner and to keep the FASB apprised of PCC members' and PCC working groups' views (and supporting rationale) on the issues being addressed by the FASB in those projects. This communication could be accomplished through regular (monthly) updates between the FASB staff and PCC members via email, conference call, or web conference.

Emerging Issues Task Force

In addition to advising the FASB on select FASB projects, the PCC will monitor the activities of the Emerging Issues Task Force (EITF). The PCC Chair may assign a member of the PCC to observe the EITF (either in person or remotely). Alternatively, or additionally, the FASB staff assigned to support the PCC will monitor the EITF and its meetings. The PCC member assigned to observe the EITF, or the assigned FASB staff (or both) will be responsible for informing the PCC about any EITF activities that may impact private companies or involve separate consideration for private companies.

PCC Process and Voting on Proposed Alternatives within GAAP

The PCC will take the following steps in reviewing GAAP and, if necessary, developing private company accounting alternatives to address the needs of users of private company financial statements:

- Identify GAAP standards that require reconsideration. Potential alternatives for PCC consideration are identified in a variety of ways, including input from private company stakeholders at PCC Town Hall meetings.
- Perform preliminary research on potential alternatives for PCC consideration, which includes identifying the issue to be addressed and its scope, as well as considering current practice and potential outcomes.
- After considering input from stakeholders and consulting with the PCC Technical Agenda Consultation Group, vote on whether to add a project to the PCC's technical agenda during a public meeting (see explanation of Technical Agenda Consultation below). A supermajority (defined as two- thirds of all sitting PCC members) must approve any additions, significant modifications, or deletions to the PCC's technical agenda. Because of the PCC's advisory role on projects under active consideration by the FASB, the PCC will refrain from adding separate (competing) projects to its technical agenda that already are under active consideration by the FASB.
- Using the Guide, develop, deliberate, and vote on proposed alternatives to be approved by a supermajority vote of PCC members.
- Provide to the FASB for endorsement any proposed alternatives within GAAP approved by the PCC (see explanation of FASB Endorsement Process below).
- Expose for public comment any proposed alternatives endorsed by the FASB. An Exposure Draft proposing alternatives for private companies (issued by the FASB) should include an explanation of how the proposed PCC alternative meets the criteria in the Guide and if it does not, why a departure from the Guide is warranted.
- Redeliberate the proposed alternatives, taking into account stakeholder comments and other input received.
- Vote on the final changes; final changes must be approved by a supermajority vote of PCC members.
- Provide the final alternatives to the FASB for final endorsement in order to issue a final Accounting Standards Update (ASU) (see explanation of FASB Endorsement Process below).

Technical Agenda Consultation

A small group comprising two FASB Board members (selected by the FASB Chair), the FASB Technical Director, and a subset of PCC members (selected by the PCC Chair—ideally, one from each stakeholder group, plus the PCC Chair) will discuss potential projects to be added to the PCC's technical agenda (the PCC Technical Agenda Consultation Group). This group will discuss whether it is more efficient and effective for the PCC or the FASB to take the lead on a potential project (that is, add the project to its respective technical agenda). It is the PCC that decides whether to add a project to its technical agenda.

FASB Endorsement Process

Under the endorsement process, the PCC will provide proposed and final alternatives within GAAP to the FASB for endorsement. A simple majority (four out of seven) of FASB members must endorse proposed and final alternatives within GAAP prior to issuing a proposed or final ASU (respectively). The endorsement process will take place at a public meeting of the FASB as soon as reasonably practicable, with the general presumption that the FASB will act within 60 days from when the proposed or final alternative was provided to the FASB for endorsement. If the FASB is unable to act within 60 days, the FASB Chair will notify the PCC Chair and the Chair of the FAF Trustee Committee designated with oversight of the PCC in writing as to the reasons for the delay and the date by which the FASB will act.

If the FASB does not endorse a proposed or final alternative, the FASB Chair will provide to the PCC Chair, within a reasonable period of time, a written document describing the reason(s) for the non-endorsement. The document also will include possible changes for the PCC to consider that could result in a decision by the FASB to endorse. This document will become part of the FASB's public record. In the event that the FASB endorses a proposed or final alternative, but one or more FASB member dissents, then the dissenting view(s) will be documented in the proposed or final ASU. Assuming final endorsement, the FASB will issue an Accounting Standards Update describing amendments to the *FASB Accounting Standards Codification*®. Given the active participation of FASB members at meetings of the PCC, it is expected that if one or more FASB members have concerns about PCC-proposed alternatives within GAAP, those FASB members will raise those concerns at the appropriate point during the PCC deliberations, so that those views become known and are discussed.

Meetings

The PCC is expected to meet at least four times each year. Additional meetings may be held as the PCC Chair determines necessary for the PCC to effectively and efficiently perform its functions.

Two-thirds of the sitting members of the PCC constitute a quorum for purposes of conducting a deliberative meeting of the PCC. All deliberative meetings of the PCC are open to the public.

Meetings of an educational (non-deliberative) or administrative nature may be held in closed session. The PCC Chair has the discretion to hold closed educational and administrative meetings without any FASB members present. No more than three FASB members may attend closed educational or administrative meetings of the PCC that address technical matters.

Generally, PCC meetings will be held at the FASB's offices in Norwalk, Connecticut. If necessary, one or more FASB or PCC members may participate by telephone or other electronic means, subject to determination by the FASB Chair or PCC Chair, respectively.

The time, date, and location of each PCC meeting, the agenda for the meeting, and the extent (if any) to which the meeting is to be closed to public observation, will be publicly announced on the PCC section of the FASB website. As deemed necessary, the PCC Chair may invite nonvoting observers to participate in meetings of the PCC to provide relevant input or expertise to the discussion of particular issues. These observers may include representatives from trade groups, regulators, or other individuals who possess relevant experience with a particular topic being deliberated.

Outreach

PCC members will participate, as their schedules allow, in outreach performed by the FASB with private company stakeholders, especially if the member is appointed to a working group for the FASB project being discussed. PCC members are encouraged to develop their own informal networks to broaden the input provided to the PCC and the FASB.

The PCC or a subset thereof should meet regularly (e.g., annually) with private company stakeholder organizations, such as the AICPA's Private Companies Practice Section Technical Issues Committee (TIC). In addition, PCC members should consider periodically attending meetings of individual state CPA societies.

Communication with Stakeholders

The FASB and the PCC should ensure that private company stakeholders are kept informed in a timely and transparent manner about the following:

- Progress made by the PCC on PCC projects.
- FASB's consideration of private company accounting alternatives that the PCC recommends to the FASB (whether accepted or rejected by the FASB).
- Forthcoming proposed and final Accounting Standards Updates (ASUs) on PCC projects.

- Input that the PCC provides the FASB in its advisory role on FASB technical agenda projects (including an explanation of its point(s) of view) and FASB's consideration and disposition of that input.
- Forthcoming proposed and final Accounting Standards Updates (ASUs) for which the PCC provided input.
- Mechanisms of communication may include the following:
    - A PCC section on FASB project-specific webpages (for projects on which the PCC is serving in an advisory role).
    - A link on the PCC webpage to separate pages for each PCC project and FASB project for which the PCC is serving in an advisory role.
    - Regular email updates to a PCC distribution list about PCC activities, including the minutes of PCC public meetings.
    - Other methods developed by the PCC and FASB staff.

Budget

The PCC's budget will be prepared in accordance with the annual budget planning schedule and procedures of the FAF. The PCC's budget will be subject to review and approval by the FAF Trustees as a component of the FASB's annual operating budget. On an annual basis, the PCC Chair will inform the FASB Chair, FASB Technical Director, and the FAF Director of Finance about the PCC's expected activities for the following calendar year and their budget implications. The PCC's budget will include expected travel, meeting, and related expenses, and an allocable share of dedicated and shared staff compensation and benefits. In preparing the PCC's budget, the FASB will take into account the PCC's technical agenda of projects and projects for which it is advising the FASB with a reasonable expectation of workloads and staffing levels.

PERIODIC REVIEW OF PCC RESPONSIBILITIES AND PROCEDURES

The FASB Chair or the PCC Chair can conduct assessments of the PCC as often as needed to ensure the effectiveness of the PCC. The assessments should be conducted in collaboration with the FASB Chair or PCC Chair, FASB Liaison to the PCC, and FAF Trustee Liaison to the PCC, consistent with the frequency and process previously established for evaluating its other advisory groups or more often as needed. The results of assessments conducted by the FASB Chair or PCC Chair, will be shared with the FAF SSPOC.

AMENDMENTS TO OPERATING PROCEDURES

On the recommendation of the PCC Chair (following consultation with the PCC members and the FASB Chair), the FAF Board of Trustees may, from time to time, alter or amend these operating procedures.

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