The Blue Ribbon Panel –

Conclusions & Heart Burn

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Mission of the Blue Ribbon Panel

- Addressing how GAAP accounting standards can best meet the needs of users of U.S. private company financial statements.

- Panel was charged with providing recommendations on the future of standard setting for private companies to the FAF Board of Trustees.
Objective of the Blue Ribbon Panel

Understand:

• Current Standard Setting Structure and Process
• Needs of Users of Private Company Financial Statements
• Cost/Benefit Considerations of GAAP for Preparers
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Landscape of Private Company Reporting “Main Street”

- Convergence - FASB / IASB
- IFRS for SMEs?
- SEC - Plan for IFRS?
- AICPA Role & Response to Members
- Aggressive Standard Setting Agenda for FASB / IASB
- Private Company Reporting Issues
- Current Complexity in Rules
- Increasing Cost to Comply vs. Benefits to Users
- Financial Crisis and Aftermath
- Fair Value Accounting
- Private Company GAAP in Other Countries

Panel Make-Up?

- Users
- Lenders
- Venture Capitalists / Private Equity
- Business Owners
- Bonding/Credit Agencies

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**BRP Majority Conclusions (Final Report)**

- Urgent Growing Systemic Issues in current U.S. GAAP standard setting
- Relevance & Complexity Issues concerning many standards for Private Entities
- Unnecessary costs are being incurred for GAAP financial statement preparation and analysis
- Need a process of standard setting to significantly increase the chances of having differences (where warranted) in financial statement management, recognition, presentation and disclosure

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**BRP Majority Conclusions (Final Report), continued**

- Establish Exceptions & Modifications to U.S. GAAP for Private Entities
- Establish a *New Board* (under FAF) to ensure this is accomplished for both new and existing Accounting Standards
- New Board should have a “Sunset” Review in about 3 - 5 years to evaluate effectiveness and process
- Create a *Differential Framework* (set of decision criteria) to facilitate and guide the new Board
- Recommended Transitional Actions by FAF and FASB
**BRP Report – Minority Viewpoints**

- Changes are needed in U.S. Accounting Standard Setting
- Complex & Irrelevant standards must be reined in for both Public & Private entities
- U.S. cannot have parallel standard setters
- Underlying economics of transactions and not capital structure should govern standards
- No Strong Outcry for change from Users
- Complexity of IFRS decision and considerations

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**BRP Report – Minority Viewpoints**

**Negative consequences** of differential standards would far outweigh benefits to stakeholders:

a. Absence of comparability among entities within industries and in moving to/from public ownership
b. Incremental costs of dual accounting standards-setting bodies and processes
c. Added strain and costs to users, practitioners, preparers, educators, students and regulators
d. Bifurcation of the accounting talent pool in all sectors
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**BRP Report – Transitional Considerations**

- FASB should work better with PCFRC
- FASB should hold separate robust private entity roundtables and explain reasoning more transparently
- FASB should use delayed implementation more liberally
- FASB should simplify the public comment process to encourage more private entity participation
- FAF should reassess its trustee makeup as well as that of FASB
- FASAC should be more representative

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**BRP Report – Unanswered Issues**

- **Structure** of a new Board?
- **Funding**...efficiencies?
- **Independence** of the New Board?
- How would **2 Boards** operate? . . and under one set of standards?
- How can **divergence** of Accounting Standards be **avoided** with 2 FASBs?
- Short & Long Term Actions needed?
- Is this really the **smart** thing to do vs. the **Emotion** associated with the issues?
- Does the Emotion **justify** the risks of unintended consequences?
Considerations of the Ultimate Answer

- FAF must demonstrate its Objectivity & Public Interest
- Confidence in existing FASB and process of change by FAF
- Can or will FASB change its culture?
- Can or will FASB have more balanced focus on private entity accounting standards?
- What is the SEC's viewpoint on Private Entity GAAP?
- Do the needs of Users dictate the risks exposure?
- How does this issue impact the IFRS dynamic?

Questions?