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Proposal to Enhance the FASB's Consideration of Private-Company Financial Reporting

The FASB and AICPA jointly proposed a new committee that would make recommendations to help the FASB determine whether accounting requirements for private companies should differ from those for public companies, one of several proposed enhancements in the standard-setting process that are intended to improve and encourage input from private-company constituents.¹ The new committee's recommendations could focus on standards already in place or those in development and would be guided by the needs of users of private-company financial statements and by cost-benefit considerations.

The scope of the new committee's mandate under the proposal would explicitly encompass recommendations on accounting principles for recognition and measurement as well as recommendations on disclosure, presentation, transition, and effective dates. Current differences in financial reporting standards for public and private companies are generally limited to disclosures and effective dates. The proposed broad objectives for the committee include serving as a resource to the FASB, evaluating FASB proposals, and evaluating whether existing standards provide useful information to users of private companies' financial statements.

The new committee would meet four to six times a year in person, set its own agenda and priorities, liaise with interested constituent groups, interpret user needs and cost-benefit considerations for purposes of its recommendations, operate under public due-process procedures, be free to conduct research, and make formal recommendations to the FASB. The body would be co-funded by the AICPA and FASB.

¹ FASB and AICPA, Invitation to Comment, Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies, June 8, 2006, available at www.fasb.org.



The proposed 11-member body would supplement the work of the Small Business Advisory Committee, set up in 2004, and the FASB's liaison and outreach efforts with the private-company segment of the financial-reporting community. Persons with experience in private-company reporting sit on the Financial Accounting Advisory Council and the EITF, and the FASB meets annually or less formally with several organizations that contain persons experienced in private-company reporting.

Other proposed changes in the standard-setting process would augment the work of the new committee. The FASB staff, for example, would provide the Board with alternatives for private companies, the Board would routinely consider whether differences between public- and private-company requirements are warranted, and decisions on different requirements for public and private companies would be explained in the basis-of-conclusions section of standard-setting documents. More input would be sought from users, preparers, and auditors of private-company reports, and staff members with experience in private-company financial accounting and reporting would be assigned to current and future projects. However, the proposal states that the objective of the changes is not to create a separate set of GAAP requirements for private companies.

Comments on the proposal are due by August 15, 2006.

The descriptive and summary statements above are not intended to be a substitute for the text of the Invitation to Comment. Those accounting for specific transactions should refer to texts of the applicable documents that set out GAAP and/or SEC requirements and consult their accounting and legal advisors.

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