

Private Company Financial Reporting Committee

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Judith H. O'Dell CPA CVA
Chair

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Ms. Teresa Polley
President and Chief Executive Officer
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856

Re: Post-implementation Review Process on FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”)

Dear Ms. Polley:

The Private Company Financial Reporting Committee (“PCFRC” or “Committee”) appreciates the opportunity to participate in the pilot test of the post-implementation review process on FIN 48. The FAF’s decision to establish a post-implementation review process to obtain input and analysis on the application, usefulness, and effectiveness of standards set by the Financial Accounting Standards Board (“FASB”) is to be applauded. A system to help determine whether the standards issued by the FASB result in decision-useful information for the users of financial statements will be a welcome and valuable addition to the overall financial accounting and reporting standard-setting process.

As there are multiple voices on the PCFRC, instead of answering the post-implementation review questionnaires developed by the FAF, the PCFRC believes it can best contribute to this pilot test by 1) commenting on the post-implementation review process, and 2) commenting on the standard-setting process that developed FIN 48 as we experienced it. Individual PCFRC members will provide responses to the review questionnaires.

The Proposed Post-implementation Review Process

The PCFRC provides the following recommendations to help ensure the new post-implementation review process provides the input the FAF needs to evaluate the effectiveness of the standard under review and identify potential areas for improvement in the standard-setting process as it affects private companies.

1. Solicit feedback on the process that set the standard, not just on the technical aspects of the standard itself. For example, the post-implementation review questionnaire should ask if the respondent commented on the standard when it was exposed for public feedback and if the respondent believes his or her comments were adequately addressed. Also, the questionnaire should ask respondents how and when they learned about the standard.

With regard to FIN 48 specifically, process-focused questions could include asking private company respondents about the effect of the timing of the issuance of the standard and its effective date, two implementation delays, the value of the subsequent implementation guidance, and the impact of including not-for-profit organizations and pass-through entities into the scope of FIN 48 (given that the standard which FIN 48 interprets did not include such entities within its scope).

2. Substantially simplify and reduce the size of the post-implementation review questionnaires. Private company constituents, especially those who use private company financial statements such as lenders, will be more responsive if the questionnaires are easy and quick to digest, understand and complete.
3. Focus the questionnaires and broader post-implementation review process more on the “business” angle and less on the “technical” angle. This is particularly important in soliciting input from financial statement users. The questionnaires should first explain the business case for the standard. In other words, the questionnaires should explain what was the perceived financial reporting problem, how was the standard intended to fix that problem, and how financial reporting is different from past practices due to the new standard.
4. Make the reduced amount of questions more relevant to constituents by focusing the questions on whether or not the respondent believed there was a financial reporting problem that existed before the standard and whether or not the standard solved that problem. For example, the FIN 48 questionnaire could ask the respondent if he or she perceived a deficiency in income tax liability reporting before the issuance of FIN 48 and if FIN 48 solved that deficiency.
5. Make sure there is someone with a private company background on the post-implementation review staff to help ensure the post-implementation review process is relevant to private company constituents. The initial FIN 48 post-implementation review questionnaires seem to have a public-company slant to them.
6. Allow sufficient response time when post-implementation review questionnaires are issued on a standard.

7. Incorporate in the post-implementation review process a procedure to review concerns and objections raised in comment letters when the standard was being exposed for public comment, and determine if those concerns and objections were valid.
8. Reduce and simplify the scale of possible answers to questions in the questionnaires.

Lessons from the Standard-setting Process that Developed FIN 48

FIN 48 was issued prior to the creation of the PCFRC and was the first standard addressed by the Committee. The PCFRC members believed that FIN 48 was a standard developed to deal with issues existing in the public company sector. The PCFRC explained the lack of relevance of FIN 48 to private company financial reporting in its letters to the FASB. In addition, the PCFRC asked for clarity and guidance on how FIN 48 applied to pass-through entities. These experiences of the PCFRC in taking up FIN 48 revealed a systemic problem in the standard-setting process involving an insufficient understanding of the needs of users of private company financial statements and an insufficient weighing of the costs and benefits of GAAP for use in private company financial reporting.

The PCFRC believes that examining the standard-setting process that developed FIN 48 and applied it to the nonpublic entity sector will harvest lessons that need to be learned and operationalized, to enable more relevant standard-setting for private companies. In addition, the PCFRC strongly believes that the changes in staffing, processes, communication, and outreach efforts that the FASB has been making to better serve the private company sector need to be institutionalized to help ensure that the improvements made will endure long into the future.

The PCFRC appreciates the FAF's consideration of this letter. Please feel free to contact me if you have any questions or comments.

Sincerely,



Judith H. O'Dell
Chair
Private Company Financial Reporting Committee