



January 11, 2012

Mr. John Brennan
Chairman of the Board of Trustees
of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: The Financial Accounting Foundation Board of Trustees, *Plan to Establish the Private Company Standards Improvement Council* (the "Proposal")

Dear Mr. Brennan:

The Clearing House Association L.L.C. ("The Clearing House"), an association of major commercial banks,¹ appreciates the opportunity to comment on the Proposal.

Executive Summary

The Clearing House supports the efforts of the Financial Accounting Foundation (the "FAF") Board of Trustees to address the needs of users of private company financial statements. The Clearing House member banks, acting as creditors, are frequent users of financial statements of both public and private companies. In addition, The Clearing House's affiliate, The Clearing House Payments Company L.L.C., is a private company that prepares financial statements under U.S. generally accepted accounting principles ("U.S. GAAP"). We support the efforts to improve the standard-setting process and better address the needs of financial statement users of public and private companies.

¹ Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House's web page at www.theclearinghouse.org.

Specifically, The Clearing House:

- *agrees* there is a need to improve the standard-setting process for private companies, as the complexity of many existing standards results in financial statements that may not be easily understood by most investors;
- *supports* the recommendations of the FAF to (i) establish a “Private Company Standards Improvement Council” (the “PCSI” or the “Council”), whereby the Council would be chaired by a member of the Financial Accounting Standards Board (the “FASB”) and overseen by the FAF Board of Trustees and (ii) propose changes to existing U.S. GAAP for private companies that would be subject to ratification by the FASB, as we believe these recommendations will serve to minimize differences with existing U.S. GAAP and ensure ongoing comparability and consistency between standards for private and public companies; and
- *does not support* the recommendation of the Blue-Ribbon Panel on Standard Setting for Private Companies (the “Blue-Ribbon Panel”) as outlined in its report dated January 2011² to establish a separate private company standards board, as we believe this has the potential to result in excessive divergence from existing U.S. GAAP and thereby ultimately create more confusion for investors.

I. There is a need to improve existing U.S. GAAP for private companies.

We agree with the conclusions of the FAF that, to date, there has been an insufficient understanding of the needs of users of private company financial statements and an insufficient weighing of the costs and benefits of U.S. GAAP for use in private company financial reporting. These issues have resulted in a number of standards that are overly complex and costly to prepare for private companies and that in many instances do not provide relevant information for many users of private company financial statements. Because of this, it is our understanding that many private companies have opted to receive qualified or except-for opinions. An increase in the issuance of these opinions leads one to question the very idea of “generally accepted” accounting principles. Further, we note that public companies, including sophisticated financial institutions, often find accounting standards complex and difficult to implement. Accordingly, we believe that simpler alternatives to complex accounting standards and disclosures should be made available to both public and private companies.

² Blue-Ribbon Panel on Standard Setting for Private Companies January 2011, available at http://www.aicpa.org/interestareas/frc/accountingfinancialreporting/pcfr/downloadabledocuments/blue_ribbon_panel_report.pdf.

II. Direct oversight by FASB will best ensure consistency with existing U.S. GAAP.

The Clearing House supports the proposal of the FAF to establish the PCSIC to improve the standard-setting process for private companies. We agree with the approach whereby the PCSIC would (i) develop criteria for determining whether and when exceptions or modifications to U.S. GAAP are warranted for private companies and (ii) review existing U.S. GAAP to identify standards that require reconsideration and vote on possible exceptions or modifications for private companies. We strongly support the proposals that the chairman of the PCSIC would be a member of the FASB, that any proposed changes to existing U.S. GAAP would be subject to ratification by the FASB and undergo thorough due process, including public comment, and that the PCSIC would be overseen by the FAF Board of Trustees. We believe that the proposed governance model will ensure that any exceptions or modifications to existing U.S. GAAP will be limited and ensure that comparability to existing U.S. GAAP is preserved.

We also note that the FAF's approach is similar in concept to the approach taken by the International Accounting Standards Board (the "IASB"), whereby the IASB has direct oversight for setting the standards for small and medium-sized entities. We believe that direct oversight of this new process by the FASB is critical to ensure consistency and coordination between accounting standards as applied to private and public companies.

III. A separate private company standards board could result in a "two-U.S. GAAP" system.

In contrast, we do not support the recommendation of the Blue-Ribbon Panel to establish a separate private company standards board. We believe that this approach may make it more likely that private company U.S. GAAP could, over time, diverge significantly from existing U.S. GAAP and ultimately result in a "two-U.S. GAAP" system, with the risk that private company U.S. GAAP may be viewed as inferior to public company U.S. GAAP. We believe that a "two-U.S. GAAP" system could undermine the confidence of investors and creditors in private company financial statements, creating unnecessary confusion in capital markets and thereby making it more difficult for private companies to raise capital and finance their business activities.

We believe that the FAF's proposed approach would appropriately balance the need to address the needs of private companies with the need to maintain a sufficient degree of comparability with existing U.S. GAAP. We thank you for considering the comments provided in this letter. If you have any questions or are in need of any further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org) or Gail Haas at (212) 612-9233 (email: gail.haas@theclearinghouse.org).

Sincerely yours,

A handwritten signature in black ink that reads "David Wagner". The signature is written in a cursive, flowing style.

David Wagner
Senior Vice President,
Financial and Tax Affairs

cc: Teresa Polley
President and Chief Executive Officer
Financial Accounting Foundation

Grace L. Hinchman
Vice President
Financial Accounting Foundation

Leslie Seidman
Chairman
Financial Accounting Standards Board

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Financial Accounting Standards Board

James Kroeker
Chief Accountant
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Robert Storch
Chief Accountant
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Steven Merriett
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Federal Reserve Board

Kathy Murphy
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Linda Bergen, Citigroup, Inc.
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