

3a) Tell us about any issues or concerns you have with current U.S. GAAP accounting standards as those standards apply to private company financial statements.

My general concern is that compliance with GAAP is becoming too complex and beyond the abilities of many private companies.

3b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

The concerns go beyond specific standards but are grounded in the cumulative effect of pronouncements such as FAS 109, 123R, 141R, 150, and 157, and FIN 46R and 48. FAS 133 deserves its own place in the record books. (The fact that some of these required an "R" supplement and others had numerous FSPs implies even FASB didn't immediately grasp the complexities.) I understand that these standards came about in part due to increasing complexities in business, but by and large most private companies are not involved in complex transactions, yet the same GAAP blanket covers them anyway. Requiring a purchaser to fair value the expected payout of contingent purchase price under FAS 141R and then explain to their banker how the resulting income or expense should or should not affect covenant calculations is one example. Another problem is the inconsistency within GAAP for similar concepts. Whether to record an impairment loss might depend on FAS 5 (probable loss), FAS 109 (more likely than not), FAS 144 (with different rules for goodwill and other long-lived assets), investments (poorly defined other than temporary impairment, unless it's a mortgage-backed security, then it's EITF 99-20).

3c) Do you believe that those issues or concerns are largely confined to private companies, or are they broader?

My experience is generally limited to private companies. However, given that the SOX 404 rules make an exception for small public companies, it seems reasonable that FASB could as well.

4) What short-term and/or long-term actions do you believe are necessary to address those issues or concerns?

I know there is some concern about "two sets of GAAP" and the effect on comparability. However, with the onset of such complex GAAP, we have seen clients accept qualified opinions or switch to OCBOA (usually tax basis) financial statements. Thus, there are already two sets of financial statement standards evolving in the marketplace, even if one isn't GAAP (although tax basis might begin to meet the "generally accepted" test). As it stands now, most users will accept tax-basis financial statements and opinions qualified for FIN 46 issues. Rather than let this develop on its own, I suggest FASB get in front of this issue and lead us to better GAAP. Exceptions have already been made for such items as redeemable stock and stock options, as well as disclosures for EPS and reportable segments. I believe this process provides the foundation for far better acceptance of GAAP by allowing for scalable reporting requirements. As far as comparability, I question the amount of current comparability between public companies, especially large public companies, and private companies due to different cost structures (it's more expensive to be a public company), different objectives (public companies are often more focused on quarterly results than private companies) and lack of a large finance or treasury department to initiate complex transactions. Furthermore, although there are more private companies than public ones, it appears that FASB has put the public companies first in its considerations.

