1. a) 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.

We have a concern with the overall complexity, practicality, and usefulness of some of the U.S. GAAP standards as they apply to private company financial statements. Although the standards do have sound academic reasons, and may provide useful information in the public company arena where many knowledgeable investors are comparing multiple companies, many of the standards do not appear to fit the needs of private company users. There has to be a benefit greater than the cost of implementation to make a standard practical for private companies. Private companies typically are not competing for investments from sophisticated investors; many times the most sophisticated users of the financial statements are the bankers providing loans, therefore anything that a banker needs to "remove" from their calculations may not be relevant information.

In numerous cases the complexity of the measurement principles and the disclosures completely overshadow the business purpose of the transaction, and the business purpose is not even adequately described in the disclosures. Also, as FASB continues to converge with international standards, the changes caused by that convergence typically do not have any measureable benefit to private companies, although it does create a cost to them to implement the changes. We also believe that it is cumbersome for private entities to change the accounting policies used quickly, and the sheer number of accounting standard updates is impractical for private companies. See below in #2 for specific examples.

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

These issues appear to be systematic. It appears that many of the new standards are very rule oriented to respond to specific concerns that are relevant to large companies without regard to practical implementation and the usefulness to users of private company financial statements.

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

We believe these concerns are especially relevant to private companies. When an entity decides to go public, that entity has now chosen to compete with larger entities and therefore needs to be held to the same standards as those larger entities.

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

Short-term actions should be taken to exempt private companies from new standards and disclosures that are overly complex, impractical, or not useful, based in part on a cost benefit analysis from the private company perspective. An example of this would be the proposed lease accounting modification that, in effect, removes operating leases from the accounting literature; this will create a huge amount of complexity as the assets will need to be recorded for book and not tax purposes causing separate depreciation schedules and additional deferred tax consequences. In addition, many owners will not understand why they do not get to show payments on these leases as an expense when the payments do not purchase the physical asset. Private companies should also be exempt from new standards or disclosures that are promoting convergence with IFRS.

Slightly more mid-term actions should include removing certain overly complex or impractical current U.S. GAAP from the private company realm, especially items that are not expected to result in cash inflows or cash outflows at any point in time. Examples of this include:

- Recording derivatives, especially interest rate swap agreements, at fair value. The
 entire purpose of this transaction is to be able to forecast cash flows. The interest rate
 swap agreement does that very effectively. The payment of the actual interest expense
 is recorded regardless of whether the agreement itself is recorded. When the
 agreement is recorded at fair value, completely noncash income and expense flows
 through the income statement. This transaction tends to add at least a half page of
 disclosures where it would be less complex and more effective to simply indicate a
 sentence with the purpose of the transaction and the new fixed interest rate.
- Recording uncertainty in income taxes using the more likely than not threshold. This
 calculation is overly complex for most private companies. In reality, the difference
 between using the newer uncertainty in income tax rules versus the old contingency
 rules results in noncash expense on the income statement where we do not ever expect
 there to be a cash outflow.
- Recording variable interest entities. Related party disclosures should describe all
 related parties, including the variable interest entities. It should also describe the
 purpose of those related party transactions. That should be sufficient. Providing
 consolidated financial statements does not provide any clearer of a picture to many of
 the users, and in some cases actually detracts from the usefulness of the financial
 statements.
- Recording deferred income taxes. Although deferred income taxes do relate to future
 cash inflows or outflows, they are complex to calculate and do not provide relevant
 information to many users of private company financial statements. A simple description
 of the differences between taxable income and GAAP income should give the users
 sufficient information.
- Recording deferred rent when the rent increases each year in an amount that
 approximates inflation. Straight-line rent expense is counterproductive when the only
 changes in rent from year to year are to approximate inflation. It is also inconsistent with
 the recording of other expenses that increase from year to year in amounts that
 approximate inflation. We do believe deferred rent for rent holidays is still appropriate.
- Recording items at fair value, rather than cost, where there is no Level 1 input. It is
 overly complex for private entities to calculate fair values when there is not a Level 1
 input. If there is already a cost that could be used, that would provide more comparable
 results from entity to entity and be more cost effective. For items such as contributions
 of goods or services, obviously fair value would still need to apply as there is in fact no
 cost basis to be used.
- Fair value disclosures should be pared down. A simple description of how the fair value was determined should be sufficient.

Long-term actions need to include establishing "big GAAP, little GAAP." Little GAAP should be more stable (similar to how IFRS for SMEs indicates updates once every 3 years with a year for implementation.) Little GAAP should remain based on the general concepts currently in U.S. GAAP, rather than being based on IFRS, with appropriate modifications. There should be little attempt to merge with international standards as private companies do not typically need financial statements being presented to people outside of the U.S. Little GAAP should pare down existing U.S. GAAP into something that is more principles based with some rules to help show how to apply the principles. Disclosures should be pared down so that a disclosure

Yeo & Yeo CPAs and Business Consultants Wendy Thompson

checklist of 20 or 30 pages (rather than the 100 pages currently) is sufficient. Disclosures should focus on using plain English to describe what a line item on the financial statements really is and how it is measured. The focus of measurement should be on only those items that will have a cash inflow or outflow at some time (either in the past or in the future.)

3. a) To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect your answers above? Why?

It would not affect our answers. SEC sets the guidance for public companies and not for private companies. Our answers already discuss preventing convergence between U.S. GAAP for private entities and IFRS.

b) To what extent, if any, would other outside factors affect your answers above? Which factors and why?

None

4. Is there any other input that you'd like to convey to the panel?

It appears the SEC will eventually implement IFRS for public companies. When that happens, U.S. GAAP (FASB) will no longer apply to public companies and will therefore become the private company standards. In the intervening time, FASB keeps adding additional standards that are directed towards public company concerns and convergence with IFRS. We will be left with a U.S. GAAP that applies only to private companies but was created with a focus on public companies; U.S. GAAP will not be responsive to the needs of the users of U.S. GAAP financial statements when that time comes.

5. Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

These views are for the firm Yeo & Yeo P.C.