- 1. <u>Lack of relevance to users</u>. Current U.S. GAAP is developed by the Financial Accounting Standards Board with its primary focus on issues encountered by listed entities and the needs of their primary financial statement users—the public equity and debt markets. Listed entities are generally larger and have more complex accounting issues than most private companies. The needs of private company financial statement users are different than the needs of public company financial statement users. Many accounting requirements and disclosure requirements have limited relevance to private company financial statement users.
- 2. Costs exceed benefits. The costs that private companies incur to obtain the technical knowledge to comply with U.S. GAAP and to prepare financial statements in accordance with U.S. GAAP outweigh the benefits to the users of their financial statements. Examples of complex accounting issues whose costs of compliance outweigh their benefits include fair value accounting and disclosures, asset impairment testing and measurement, uncertain tax positions, and variable interest entities.
- 3. Principles-based standards. The trend in recent years is to issue standards that contain broad-based principles but provide little in the way of application guidance. This is sometimes referred to as "principles-based standards." Principles-based standards are fine in theory, but without extensive application guidance and examples they are significantly more difficult to apply than rules-based standards.
- 4. Commonplace GAAP departures. To avoid the costs of complying with accounting principles that do not provide decision-relevant information to financial statement users, it has become commonplace for management of private companies to ignore certain accounting rules and financial statement disclosures. As a result, GAAP departures have become almost commonplace, diluting the usefulness of GAAP financial statements and allowing private companies to pick and choose which accounting requirements they will apply and which they will ignore.
- 5. Diminished level of assurance obtained by financial statement users. Many private companies rely on their outside accountants to assist them in understanding and interpreting U.S. GAAP and assist in preparing financial statements in accordance with U.S. GAAP. Complexity in accounting standards drives up the cost of complying with them. The expanded use of fair value has increasingly made it necessary for companies to hire outside valuation specialists. To offset these costs, some private companies have asked their outside accountants to step down the level of assurance they provide, from audits to reviews or compilations. This diminishes the reliability of private company financial statements to the users of those statements.
- b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

Certain concerns (for example, uncertain tax positions and variable interest entities) are related to specific accounting issues. However, certain broad-based issues (for example, increasing use of fair value) increase the volume and complexity of disclosures and are more systemic.

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

The needs of users of public company financial statement users are different from the needs of private company financial statement users. We believe these issues are, for the most part, confined to non-public companies, because U.S. GAAP requires accounting and financial information that has limited usefulness to the users of private company, non-for-profit, employee benefit plan and governmental (non-issuer entities) financial statements.

The current financial reporting model is increasingly driven by the needs of users of public company financial statements. Information is being required which benefits outside investors and facilitates capital formation. This information is not relevant to users of private company financial statements. Users of private company financials desire information provided by the traditional accounting model based on income, performance and accountability.

Please be as specific as possible in your answers.

4. What short-term and/or long-term actions do you believe are necessary to address those issues or concerns? Please be as specific as possible in your answer, and explain your reasoning.

In the short-term, U.S. GAAP should continue to be used, but there should be more situations where the FASB exempts private companies from U.S. GAAP accounting and disclosure requirements, when those requirements are not relevant for private company financial statement users. The situations in which the FASB has thus far granted exemptions for private companies are far too limited.

In the long-term, a separate accounting standards setting board dedicated to the unique needs of the users of private company financial statements is critical. Separating the public company standard setters from the private company standard setters would allow each board to appropriately address the specific needs of the users of the financials and develop the reporting and disclosure requirements that are relevant to those groups. Under our current structure this cannot be effectively accomplished. This separate board would likely evolve over time.

5. 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?

If the SEC sets a date certain for adoption of IFRS by U.S. public companies that will establish a target date by which U.S. GAAP for private companies should be established. We do not believe that adoption of IFRS or IFRS for SMEs by U.S. private companies would constitute any improvement in the decision-relevant information currently provided to users of private company financial statements in the U.S. IFRS and IFRS for SMEs do not provide the extensive application or industry guidance which exists in current U.S. GAAP.

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

The development of any set of private company standards, in any form, would require a funding mechanism. This factor is significant but not insurmountable.

6. Is there any other input that you'd like to convey to the Panel?

Existing GAAP significantly modified for existing complex standards is a good starting point to develop U.S. GAAP for non-issuer entities.

7. Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated? The views of the organization for which I am associated.

If you or your organization would like to submit your responses to the questions, please email them to Tim Woo, <u>tswoo@fasb.org</u>, no later than Wednesday, September 15, 2010. All submissions will be considered public and will be posted to this webpage for public viewing. A summary of the responses received through September 15th will also be prepared and distributed to Panel members and participating observers. The summary will also be included as part of the observer notes (publicly available meeting handout) for the Panel's next meeting, on Friday October 8th, in New York City. To facilitate the staff's ability to read and summarize the submissions, we ask, notwithstanding our request for specificity, that you please try to be as succinct as possible in your responses to the questions.