



September 15, 2010

Financial Accounting Standards Board
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Via e-mail to tswoo@fasb.org

Re: AICPA/FAF/NASBA "Blue Ribbon" Panel on Standard Setting for Private Companies
Constituent Input

Plante & Moran, PLLC appreciates the opportunity to provide comments to the AICPA/FAF/NASBA "Blue Ribbon" Panel on Standard Setting for Private Companies in response to the request for written input from constituents. We appreciate the attention the Panel is providing to the issues encountered by private companies in the application of generally accepted accounting principles.

The following are our responses to the Questions for Submissions:

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.

The concerns that we have with current U.S. GAAP accounting standards as those standards apply to private company financial statements are reflected in the significant number of entities that choose not to prepare financial statements in accordance with U.S. GAAP. In lieu of preparing U.S. GAAP financial statements, many private companies prepare financial statements that include a departure from U.S. GAAP or financial statements are presented on a comprehensive basis of accounting other than U.S. GAAP, such as the income tax basis.

The most common reasons cited for not preparing U.S. GAAP financial statements include (a) a perception by entity management and key stakeholders (investors, lenders and others) that current U.S. GAAP does not provide relevant information for decision making purposes; (b) a lack of resources necessary to comply with specific standards; and (c) the costs of complying with U.S. GAAP exceeds the benefits derived. When significant numbers of entities choose not to comply with accounting pronouncements, a question is raised as to whether the prescribed treatment truly is "generally accepted."

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

The issues and concerns are generally confined to a small number of specific standards; however, the significant increase in the use of fair value measurements in financial statements of private companies also creates more systemic issues.

With respect to specific standards, the most common reason why entities do not prepare financial statements in accordance with U.S. GAAP is the consolidation of variable interest entities. Lenders and other investors often state that consolidated financial statements that include a consolidated variable interest entity do not provide the information that they need for decision making purposes. Other specific standards that cause private companies not to prepare financial statements in accordance with U.S. GAAP include goodwill impairment testing, testing of other long-lived assets for impairment, and the accounting for uncertainty in income taxes. With respect to these latter items, the most common justifications for not preparing financial statements in accordance with U.S. GAAP include a lack of resources and concerns that the cost of complying with the standards outweigh the benefits of the information provided.

The increased use of recurring fair value measurements in the financial statements of private companies has also raised more systemic issues. Investors and other users of public company financial statements often find that increased use of fair value measurements provides them with the information they need to make investment and other decisions. The primary users of private company financial statements, on the other hand, often find that fair value measurements distort the information they need for decision making purposes. Users of private company financial statements are typically interested in short-term cash flows, liquidity and solvency issues, and balance sheet strength. The information needed to make assessments in each of these areas can be adversely impacted by the use of recurring fair value measurements.

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

These issues and concerns primarily impact private companies; however, there are public companies that have similar experiences. The extent to which an entity is impacted by the issues identified above is related to the reliance it has on public capital markets for financing. Many of the recent changes to U.S. GAAP have been designed to provide investors in public companies with the information they need to make decisions. As such, entities that rely primarily or exclusively on public capital markets for equity and debt financing are likely providing the information needed by its principal financial statement users. However, public companies that rely less on public capital markets and more on private equity and bank financing experience many of the same issues as private companies.

Expanding beyond the context of for-profit entities, the issues and concerns also impact other entities, such as not-for-profit entities and employee benefit plans. Consideration should be given to taking into account the needs of the users, preparers and auditors of the financial statements of these entities when contemplating changes to U.S. GAAP for "private companies."

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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 order to address these concerns, we believe that changes need to be made to the current system to allow U.S. GAAP to be responsive to the unique needs of private companies. Accommodations are sometimes made under current U.S. GAAP; however, these are often limited to reduced disclosures or delayed implementation dates. In order to meet the needs of private companies, changes to recognition and measurement requirements are needed. This process could take several different forms; however, we believe that care should be taken in evaluating the impact of developing a set of private company accounting standards that differs substantially from those used by public companies. Despite the sometimes significant difference in the needs of the users of public and private company financial statements, there continues to be a valuable benefit from having comparability between public and private companies. As a result, the framework used to develop private company accounting standards should be as closely aligned as possible to that used for public company standards.

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

The viewpoint expressed in the response to the previous question regarding the benefits of aligning the financial reporting framework for public and private companies would be impacted by any proposed change by the SEC to require public companies to adopt IFRS. A decision by the SEC to require a change to IFRS on a date certain would be beneficial to the discussion of private company financial reporting as it would allow for a clearer evaluation of the costs and benefits of maintaining alignment between public and private company standards.

A second area that would be impacted by an SEC requirement for public companies to adopt IFRS would be an increased interest in the use of IFRS for Small and Medium Sized Entities (SMEs). IFRS for SMEs could potentially become a viable alternative for private companies that wish to retain some degree of comparability with public companies without adopting the full set of IFRS.

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

The Panel's evaluation should take into account the impact of having multiple financial reporting frameworks on colleges and universities, regulators, CPA practitioners and others. We currently operate in an environment with multiple financial reporting frameworks, with separate standards currently in place for governmental entities, not-for-profit entities, and for-profit entities. To the extent that this is significantly expanded to include IFRS, IFRS for SMEs, and a separate set of U.S. GAAP standards for private companies, there will be burdens placed on these organizations as they need to make educational curriculums, certification examinations and training flexible enough to accommodate the multiple financial reporting frameworks. Multiple reporting frameworks will also result in increased costs and complexity across the accounting profession that could impact the ability to attract and retain qualified individuals.

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

These responses represent the views of Plante & Moran, PLLC.

Plante & Moran, PLLC appreciates the consideration you have provided to our responses. If you have any questions, please contact David Grubb at 248.352.2500.

Very truly yours,

Plante & Moran, PLLC

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