CLARK NUBER

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Response No. 143 Clark Nuber P.S.

September 15, 2010

Certified Public

Accountants

and Consultants

Blue Ribbon Panel on Private Company Financial Reporting Financial Accounting Standards Board

Members of the Panel:

Thank you for the opportunity to share our views on this important work. Our firm provides audit, review and compilation services for many privately held businesses and not-for-profit organizations and many members of our firm are active in AICPA and Washington Society of CPA activities. We have been following the developments of this panel since the beginning. Our clients range in size from start-up, development stage enterprises to well-established, diverse owner-managed and professionally managed businesses with revenues greater than \$100 million. Our clients operate in many industries and in nearly all states and multiple countries. Our clients include many who are fully conversant with Generally Accepted Accounting Principles (GAAP) and those who rely on our expertise to prepare proper financial statements. Our clients prepare financial reports for lenders, contributors, investors, owner-managers and regulators. We believe that we are in a very good position to comment meaningfully on this topic.

Private companies, in our experience, have difficulty with the **extent of disclosure** required by Generally Accepted Accounting Principles (GAAP), rather than **measurement** principles. Similarly, knowledgeable users of financial statements rely on the measurement principles of GAAP for comparative analysis purposes and less on the sometimes expansive disclosures required by GAAP. While this is a generalization across our client experiences, the frequency of complicated measurement and disclosure issues encountered by any one client business or organization is few – perhaps two or three in a given financial statement, at most. That is to say, for example, a typical early stage technology company will have complicated issues of revenue recognition and equity, but not much more. Yet, in a typical early stage technology company, the disclosures required by GAAP for these areas, particularly stock options, can be extensive and, in our opinion, marginally useful. The overall measures are important but disclosures are designed for the "most extensive" situation. (Preparers and practitioners are not always comfortable, in our view, in making selective disclosures where GAAP prescribes more.) We believe that significant improvements can be made to GAAP for

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private companies by limiting disclosures required for those entities. Following are our primary reasons for this belief.

- 1. GAAP should represent a universal language of accounting as it relates to measurement. After proper deliberation and input from constituencies, standard setters establish the measurement principles for accounting transactions and events. A common understanding of the measurement principles of GAAP facilitates understanding and analysis across all preparers, users and practitioners alike. If different measurement principles are promulgated by FASB/IASB and called "Generally Accepted", or worse, by yet another board of standard setters, confusion will result and will impede communication of financial performance and position. We would prefer one GAAP measurement principle for all entities.
- 2. Private or Public ownership status should not affect measurement principles used. Some private companies are much larger than public companies competing for similar resources. Differing measurement principles diminish comparability. Similarly, private companies can elect to become public companies. Differing measurement principles can render prior financial reporting useless. Private companies should be able to elect higher levels of reporting, if they so desire (say, in the case of a company grooming to go public or a similar transaction.)
- 3. Certain GAAP principles have been targeted as problematic for private businesses and evidence of the need for differential measurement. These include (our short list): straight-lining scheduled rent increases, consolidation of variable interest entities, uncertain tax positions. The problem with these (and similar) GAAP principles is not a private company vs. public company perspective. More pointedly, the problems stem from disagreement over the principle itself. By necessity, measurement principles require choices lines in the sand. Some will agree, some will not.
- 4. Attempts have been made, primarily by the AICPA, to incorporate a "private company perspective" in the standard setting process. This has had limited, but important, success. We believe that a concurrent analysis of the impact of standards and disclosures on the private company sector would be an invaluable improvement to the development of accounting standards. This process needs to be robust and taken seriously by standard setters. Unlike measurement principles which result in how and when an accounting event is recognized, disclosure

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requirements should be more nuanced and can vary by the relative importance of the class of transaction to the entity. By their nature, private companies do not widely distribute financial statements and in almost all cases, users would have the access needed to inquire regarding any issue identified.

We recognize the difficulty and appreciate the significance of your work. Thank you very much for the opportunity to provide our thoughts. Please address questions regarding this correspondence to Ronald G. Rauch, Shareholder.

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AICPA/FAF/NASBA "Blue-Ribbon" Panel Written Submissions from Conscipulation of the control of th

- 1. Please complete the form to help compile information on the respondents and send as a separate attachment. See form attached.
 - 3.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.
 - The primary concern that we have with US GAAP standards as they apply to private company financial statements is that a "private company perspective" was not given adequate attention as it relates to disclosure requirements. One notable exception is in regard to income tax accounting disclosures, where public companies are required to tabulate the impact of permanent differences on effective tax rates whereas private companies can simply describe the nature of those differences. This is very appropriate because, in our experience, private companies generally have very few permanent differences and they can be adequately described narratively. An example of disclosure "over-load" for private companies is stock option accounting. For most private companies the measurement of option expense is becoming better understood. However, the lengthy disclosures tend to overwhelm the reader with information that is not useful for decision making. Disclosures that are based on a "private company perspective" would focus on how users of such financial statements make decisions in light of the knowledge that options exist.
 - b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?
 - We believe that the issues with disclosure are systemic. We believe that standard setters need a separate private company perspective that can focus on the needs of those entities. We also believe that this process can be incorporated in the current standard setting model.

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

These issues are largely confined to private companies. However, a very large private company that seeks capital in broad markets or has a very large ownershipsgroupNor143 otherwise competes for resources against public companies may find it more useful to apply "full disclosure" or "public company" disclosures. Private companies should always have the option to disclose more if they so desire.

The vast majority of private companies have very limited distribution of financial statements and most, if not all users, are able to pose questions directly to management.

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.

We believe that a "private company perspective" be woven in to the fabric of standard setting. It should be done within the existing FASB/IASB framework, not another standard setting body, so that the marketplace can continue to look to one set of cohesive standards, with differential disclosure. There is no reason, in our opinion, to "start over" with setting private company accounting standards and the hazards created by heading in a different direction are not good for the marketplace.

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?

IFRS has adopted "IFRS for SMEs". This is essentially a start in the right direction. The standards are promulgated by the same standard setting body but with a private company (or, small to medium sized company) perspective. Enterprises without a public reporting responsibility need the ability to publish "GAAP" financial statements, yet have some relief from disclosure requirements designed with public reporting in mind.

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

Our concern is that the value of financial reporting in the private sector, which primarily comes now through CPAs assisting clients with implementing accounting standards, would be negatively impacted by some of the solutions currently under consideration by the panel.

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

Confidence in the financial reporting system has never been more important in both the public and private sectors. We are concerned that having multiple standards that could be referred to as GAAP will only diminish that confidence in both the short and long term. We need to continue to build upon what has been accomplished. However, increasingly, business transactions are more complex and require suitable standards to report faithfully. The private sector companies that we work with engage in complicated transactions and need to be

subject to the same rigorous measurement standards as public companies. We believe that a robust "private company perspective" within the existing standards setting process will go a long way toward providing faithful and efficient financial reporting.

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7. 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 the Audit shareholders of Clark Nuber PS.