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ACCOUNTANTS

October 25, 2012

Via Email (director@fasb.org)

File reference No.: 2012-230

Dear Technical Director:

This correspondence is intended to respond to your invitation to comment regarding the development of a final framework for use by the Financial Accounting Standards, Board (FASB) and the Private Company Council (PCC). Our response is organized in the same sequence as the Invitation to Comment.

Question 1: Please describe the individual or organization responding to this Invitation to Comment

This response is being issued by the Accounting, Auditing, and Review Standards Committee of the Washington Society of Certified Public Accountants. The members of the committee represent CPA's in public practice, private practice, and governmental practice. The majority of the committee members in public practice are with medium to small public accounting firms that specialize in privately held enterprises. Our members who are in private companies range from small businesses to fortune 500 companies along with not-for-profit organizations. Generally, all committee members would fall into the financial statement preparer category.

Our committee represents the Society's at large membership for which the majority of the members are CPA's in public and private practice in medium to smaller firms. While the Society does have members that practice in Big 4 accounting firms, we are presuming those firms will be issuing their own comment letters.

Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies?

Yes.

Lending institutions typically organize different departments to serve specific tiers of private companies. For example, line of credit (or aggregate debt load) lending authority for different departments may be from \$0-\$5,000,000, \$5,000,000-\$20,000,000, and \$20,000,000 and greater. As a result, each department sees private company financial statements for a specific range of private companies and may alter

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the level of information obtained from management apart from the financial statements.

Question 3: Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner?

Yes, on an overall basis we believe the staff recommendations are appropriate. We believe the outcry for standards overload at the private company level has been principally related to standards that were overly complicated and not meaningful in a significant manner for private company financial statements. One case in point, was a regional trucking company where the owners of the company were members in LLC entities that owned several of the terminals. When the variable interest entities standard came out, one of our members discussed with the owner the standards now required the financial statements for the terminals be consolidated with the main company. The client felt because their company was in a regulated industry, the financial statements could become public record and he was opposed to presenting such information to his competitors. The solution was for our member to qualify his report which was acceptable to the company's lender because they were also obtaining the owners' individual income tax returns.

We believe CPA's that serve private companies should not be put in a position to qualify reports on private company financial statements. This illustrates that measurement and recognition are the key areas we believe the standard setters should evaluate for potential allowed differences. Deferred effective dates, display, or disclosure differences may help to mitigate the effect of standards implementation to private companies but are viewed as minor compared to the ability to not adopt a standard in its entirety.

Question 4: Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries?

No. We believe the identified differential factors between private companies and public companies are also valid when it comes to industry-specific accounting guidance and that such differences could lead to modifications between public company and private company financial statements.

Question 5: Do the different areas of the framework appropriately describe and consider the primary information needs of users of private company financial

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statements and the ability of those users to access management, and does the disclosure area of the framework appropriate describe the red-flag approach often used by users when reviewing private company financial statements?

We believe the staff are placing too much emphasis on private company investors looking to the financial statements for accounting and disclosure requirements affecting cash (for dividend payments) and adjusted EBITDA (for purposes of applying a valuation multiple to estimate a selling price for their shares). In our experience, the majority of privately held companies do not pay dividends, and if they do, they are in the form of a distribution to cover the individual's tax liability because the entity is a pass-through entity. Even if the organization pays dividends, the owners do not look to the financial statements to determine the amount of the dividend, they look to other information available within the organization.

The majority of privately held companies that our members deal with, are very closely held, and the owners are actively involved in the company. We also believe the only time most private company owners look for a valuation of their ownership interest is when they are performing estate planning or the key owners have decided to sell the business. As the materials indicate, these are typically long-term horizons.

The one exception to this would be private companies that have employee stock ownership plans.

Question 6: Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework?

We believe the merits of creating such a framework should be the most part lead to differences in measurement and recognition.

The key question in the framework appears to be the decision of relevance and the staff are indicating more weight should be placed on this factor. The trucking company example noted above is a clear case where the information would have been considered relevant, but other factors lead to the company presenting their financial statements with a GAAP departure.

Question 7: Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and PCC to consider?

Yes.

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Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies?

Yes.

Question 9:

- (a) Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance?
- (b) If private companies are provided a deferred effective date, do you agree that a private company should have the option to adopt the amendments before
- (a) No, not necessarily. We believe this is a good idea if the standard has elements that may be difficult for a privately held company to implement but otherwise do not meet the criteria of having a measurement or recognition difference.
- (b) We believe that private companies should have the option to early adopt but not earlier than the required or permitted date for public companies.

Question 10: Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies?

Yes.

Question 11: Do you agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework?

Yes.

Question 12: Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework?

We believe private companies who receive federal funding might be companies the Board should consider. One of our members felt that financial institutions should not be considered in the scope of the framework.

Question 13: The staff acknowledges the importance of the decision to be reached by the Board and the PCC on whether to require a private company that elects to apply any difference in recognition or measurement guidance

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provided under the framework to apply all existing and future differences in recognition and measurement guidance.

- a) Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance?
- b) Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)?

We believe this to be a difficult decision without knowing the nature, type, and extent of options that may be made available to private company financial statement preparers. Several members of the committee voiced concern regarding the users of private company financial statements becoming confused if different private companies utilize different adoption methods. Other members did not see this as concern given the level of access private company financial statement users have to management.

- a) In general, we do not believe it would need to be an all or nothing approach.
- b) Yes

We trust this response will aid the staff's development process of the private company decision-making framework.

Respectfully submitted,

Via email

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