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Technical Director
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Financial Accounting Standards Board
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By e-mail: director@fasb.org

The Connecticut State Society of Certified Public Accountants, representing approximately 6,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the Invitation to Comment, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*.

The CTCPA's Financial Accounting Standards Committee deliberated the invitation to comment and prepared the attached response. These comments represent the views of the committee. If you would like additional information, please contact me at 203.323.2400 or bblasnik@odpkf.com.

Respectfully,

Bruce Blasnik, Chair Financial Accounting Standards Committee

Attachment



Response to Invitation to Comment Private Company Decision-Making Framework

This letter is being written to express the collective views of the members of the Accounting and Reporting Standards Committee of the Connecticut Society of CPAs (the "Committee"). The Committee is made up primarily of practicing CPAs, but also includes members from academia and private industry. The practicing CPAs and industry members work primarily or exclusively with or in private companies. We are involved in preparing, or assisting in the preparation of, compiling, reviewing and auditing financial statements of private companies with revenues ranging from \$1 million to \$200 million or more.

We believe that the FASB staff has identified and focused on the appropriate differential factors between private and public companies and the recommendations should result in a framework that would lead to decisions that would provide relevant information to users of private company financial statements in a more effective manner. Overall, we agree with all the recommendations and considerations outlined in the Discussion Paper.

With respect to recognition and measurement we believe that private company standards should generally not differ from public company standards. However, because private companies generally do not have the same data or depth of resources that public companies generally have, practical expedients should be strongly considered whenever reasonable in order to satisfy the needs of financial statement users. That said, there are limited instances where the standards for public companies are wholly or largely irrelevant or inappropriate in the private company setting. In these instances different standards for recognition and measurement must be offered for private companies, which is something the FASB has largely ignored in the past. One such example is the accounting for employee stock options which requires expense to be recognized based on the fair value of the options on the date of grant. However, the option valuation models employed (most frequently Black-Scholes) are completely inappropriate for use in the private company setting since the models are predicated on the assumption that the underlying stock is liquid and can be sold at any time. In this situation, the recognition and measurement standard is not only costly to apply, but entirely flawed and irrelevant to the users of private company financial statements. (Limited disclosure of vested and non-vested options outstanding and the range of exercise prices would be sufficient to meet the needs of the users of private company financial statements.)

With respect to disclosure, we believe that there are frequently situations where disclosures can be appropriately scaled down for private companies.

One important consideration that the staff did not address in the Discussion Paper is the definition of a *Private Company*. Particularly with respect to resources, many large private companies are more like public companies than smaller private companies. Accordingly, an appropriate definition of Private Company must be developed before differing standards can be developed.

We believe the primary differences between public and private company standards should be in the level of required disclosure and that there generally should not be differences in recognition and measurement except in those limited situations where the standards for public companies are not appropriate for the private company setting (such as the stock option example cited above). (In making this statement we want to emphasize that we do not believe that the use of a practical expedient is the same as a difference in recognition or measurement.) Since we do not believe there should or will be frequent differences in the recognition and measurement standards, we do not believe it is necessary to consider an all or nothing approach to the adoption of private company reporting standards. Private companies should have the option of choosing which differences to apply if and when differences in recognition and measurement exist.

Sincerely,

Bruce Blasnik Chair, CTCPA Accounting and Reporting Standards Committee