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To: Tim Woo, FASB, tswoo@fasb.org

Subject: AICPA/FAF/NASBA Blue-Ribbon Panel Written Submissions from Constituents

# All respondents:

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.

Private companies need more clear, concise and comprehensive standards, with reduced disclosure and simpler financial statements. Consistency and comparability should be authoritative attributes of private company financial statements.

Specific areas of concern (Outline Format):

# Revenue recognition

These standards could be more clearly and concisely written

# **Stock Based Compensation**

Administrative overhead for a small company to implement complex rules

Complexity of governance issues determining grant date

123R often overstates expense

Cost to company does not match benefit to employees

Employees are restricted and can't diversify; benefit less than predicted by B/S

No valuation discount for private company liquidity and marketability

Valuation only at grant date with no true up of assumptions

If pubco. analysts back out these #'s why are they needed for small privates?

#### Leases

How to determine term of lease, given possible renewal periods?

How to determine economic life? Must it tie to depreciation life?

Does lease start when lease is signed, or when asset becomes available to lessee?

### Fair Value

Exactly what must be carried at fair value?

When can one use tax FMV as a proxy for FV?

Which FV gains/losses go to NI and which to OCI?

FV of contingent liabilities is deeply problematic;

Outlying contingencies may be highly material

Unwarranted counterparty assumption

Discount rate use unclear

Disclosure issues

FAS-5 option in mergers hampers comparability

Instead, consider median outcome approach (per FIN48)

Goodwill impairment at the level of reporting units requires substantial overhead

(Private companies were not even tracking RSs let alone RUs)

Loss of consistency and comparability in FV standards

For additional issues see "The Fair Value Compromise - A Proposed Solution"

http://www.taxservice2u.com/fair value comp.pdf

# FIN46 VIE consolidation

Unreadable language in standards
Potential huge number of quarterly tests for consolidation
Lack of safe harbor or materiality language to reduce testing
FIN48

Disclosure

Valuation allowance determination

<u>Proposed contract based revenue recognition</u> and <u>contract based lease accounting</u> would seem to require accountants to second guess future value decisions by a jury. Is this a reasonable task for small private company accountants?

<u>Proposed presentation changes</u>, applying FAS95 SOCF operating/investing/financing concepts to the balance sheet and income statement, and requiring direct method SOCF are disturbing. They represent untested experimental changes to long established statement formats, and these changes could cause problems and have significant overhead to private companies.

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

The biggest systemic problem is that FASB decisions are being made by a simple majority of three individuals, with limited deliberation, review, or private company input. There are few incentives and substantial disincentives, particularly for smaller private companies, to participate in the FASB comment process. The public nature of the comment process, and a lack of time and resources, prevent small private companies from participating. As a result the comment process selects the perspectives of organizations large enough to afford to dedicate staff time to following proposed FASB actions.

There is also a general perception among CPAs that any responses from small private companies and their practitioners are not read nor seriously considered by FASB, and that time spent submitting these comments would be wasted.

Lesser systemic issues follow:

What is the incentive for FASB to write rules in simple, clear and concise, plain English, and to defer new rules until all resulting issues have been well addressed?

When there is an accounting problem for one company, FASB prevents future recurrences by requiring MORE disclosure from ALL companies. When is the last time FASB has reduced disclosure requirements, requiring LESS disclosure to reduce unnecessary overhead? Individual investors in small private companies are receiving too much disclosure in financial statements, bear the cost of generating the excess disclosure, and lack the means and expertise to understand or organize this information overload.

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

These are broader issues, but they are of most concern to smaller private companies, which have fewer resources to cope with complex, unclear, rapidly changing standards. The interests of small private companies are least considered by the current comment process.

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.

The current volunteer comment process does not adequately capture the needs and views of smaller private companies.

Quoting a May 7, 2010 letter from FEI Committee on Corporate Reporting to Robert Herz and Sir David Tweedie

(http://www.financialexecutives.org/eweb/upload/FEI/FEI%20CCR%20Letter%20to%20FASB,%20IASB%20on%20MoU%20EDs%205.7.10.pdf)

"As Chairman of the Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI"), I am writing to express our significant concern that springs from the unprecedented volume as well as the complexity of proposed standards expected to be issued in the coming months. We urge the Boards to consider the adverse effect that is likely to have on the effectiveness of the Board's' due process procedures".

If the dedicated staff of the FEI cannot keep up with the complex proposals coming from FASB, why do we think that individual small private companies are capable of participating in FASB's standard setting?

The FASB was created because volunteer basis predecessor organizations were not functional. Similarly the current FASB volunteer public comment process is not functional. FASB should create a review and comment process that does not rely on volunteer comments. Instead FASB should budget to poll and compensate statistical samples of constituents, for private feedback on all issues, TO INCLUDE SMALL PRIVATE COMPANIES.

Consideration of such feedback is most critical when the FASB board is less than unanimous in passing a standard. I don't think it is reasonable for a simple majority of only three board members to be able to pass a new standard when that standard does not lead to comparability and consistency, does not lead to convergence with IFRS, or does not comprehensively, clearly and concisely cover the transactions it is intended to cover, and potentially adversely affects hundreds of millions of individuals employed by, or invested in, private companies.

- 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?

  An SEC requirement to adopt (some future version of) IFRS will set a general trend toward a single worldwide format for financial reporting. This would be a good thing. However many private companies are bound by contractual relationships requiring continued GAAP financial statements. Therefore such an SEC requirement, by itself, would not be enough to help private companies suffering from FASB standards overload.
  - b) To what extent, if any, would other outside factors affect your answers above? Which factors and why?

    My answers would be affected by an action requiring private companies to adopt IFRS and legally allowing IFRS financial statements to be provided, in lieu of GAAP financial statements, to fulfill contractual requirements. This would
- 6. Is there any other input that you'd like to convey to the Panel?

  Thank you for reading and considering my perspectives.

represent the complete replacement of GAAP with IFRS.

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 are my individual views. They are based on my recent conversations with approximately 1,000 individual CPAs involved in preparing or auditing private and public company financial statements, but they do not specifically represent the views of any other particular CPA. Nor do they reflect the views of my employers, my clients, nor any organizations with which I am associated.