

September 15, 2010

Mr. Tim Woo Postgraduate Technical Assistant Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Dear Mr. Woo:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the blue-ribbon panel's posted questions on Private Company Financial Reporting. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

Our comments on specific questions posed by the Board are as follows:

Question No. 1:

A) Briefly describe how you use GAAP financial statements in your decision making concerning private companies.

The majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors and management accountants. We believe that investors and management accountants use GAAP financial statements as one of the tools to monitor a company's performance, cash levels, ability to satisfy obligations as they become due, and to ensure they have as complete a picture of the company as possible. The users of GAAP financial statements of private companies are ultimately concerned with stewardship and accountability.

B) Tell us about any issues or concerns that you may have with respect to the relevance of the information contained in those statements. Please be as specific as possible in your answer.

Our Committee believes that there is an overload of information in the financial statements which is not relevant and is sometimes difficult for users to fully understand. For example, not all users are interested in fair value information because those values do not necessarily provide information about current cash flows. Another example would be the requirement to consolidate variable interest entities as it may not be relevant or may be very costly for the private company to provide this information. To illustrate, a manufacturing entity that purchases exchange-traded securities with excess cash and classifies them as available for sale would need to present fair



value disclosures in its financial statements. While it is correct to include the fair value disclosures in the company's financial statements, it may not be as relevant in the case of a manufacturer because it is more focused on inventory management and the related costs to manufacture its products. As some information is not as relevant or is too costly to the preparer, companies will typically take a GAAP exception, which only leads to a reduction in the quality of the GAAP financial statement. There should be an acceptable way to reduce the amount of disclosures in cases like the manufacturing example, without a reduction in the quality of the financial statements.

An additional concern we have is the length of financial statement disclosures. As additional, often irrelevant or background verbiage piles up, disclosures tend to obscure important information and become more boilerplate than informative to the user. For example, fair value disclosures require almost two pages of background information on the accounting requirements before even getting into the details of fair value. By the time the disclosures relating to the details of fair value are presented, the reader has been bombarded with arguably useful information.

Question No. 2:

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. Are those issues or concerns confined to one or more specific standards, or are they more systemic? Do you believe that those issues or concerns are largely confined to private companies or are they broader?

Our concerns with current U.S. GAAP accounting standards are systemic and not related to one specific standard. Our concerns are not confined to only private companies, but to all entities. As there has been a slow migration from a historical cost model based on transactions to one focused on more complex valuation measurements (i.e. economic income), U.S. GAAP is at a crossroad. Users of private company financial statements are more focused on shorter-term cash flows, liquidity, balance sheet strength, interest coverage and solvency issues, while public company reporting is focused on the needs of equity investors in public capital markets. Additionally, the implementation of new standards under U.S. GAAP has become so complex and burdensome for privately-held entities that the cost to implement has almost outweighed any benefit to implement. For example, it is difficult for a private company to calculate any impairment of goodwill in the absence of undertaking a costly evaluation and the process does not necessarily provide any additional information not already known by the user (e.g. lender). Lenders typically know that a private company is doing poorly before impairment is assessed. A more simplified approach, such as one that would allow for amortization of all goodwill and intangible assets, would reduce the complexity associated in determining asset impairments. Additionally, burdensome disclosures need to be reduced to a level that provides what is actually



needed for users. Complex disclosures related to pensions, derivatives, stock compensation, leases, financial instruments, and deferred income taxes can be too burdensome and complex for private companies to comply with, and lead to a reduction in the overall quality of GAAP financial statements when companies decide to take a GAAP exception instead, thereby reducing comparability and transparency.

As preparers, reviewers and auditors of private company financial statements, we want to ensure that the information in the financial statements will be relevant to third-party readers. In our view, private companies should not be burdened with providing information that might be relevant to a broader audience, such as investors in public capital markets, until management intends to execute such a capital transaction. The costs of providing detailed disclosures, such as fair value analysis and credit information, and performing extensive calculations, such as asset impairment and sensitivity analysis, far outweigh the benefits to private companies.

If third-party readers need more information from private entities, they have the right to request it. Lenders, creditors, "silent owners" and regulators have direct access to owners/managers of private companies for any information they need, any time they need it, in order to assess the ability to repay, any underlying collateral or capital adequacy. At the end of the day, users of private company financial statements still seem to be more concerned with stewardship and accountability and not capital allocation, which has become the primary objective of public company financial reporting.

Question No. 3:

What short-term and/or long-term actions do you believe are necessary to address those issues or concerns?

The current standard setting process is committed to one set of standards which allows few exceptions for private companies. The perception is that private companies have the option to report a GAAP departure or report on an other comprehensive basis of accounting. However, private companies do not always have that option. For example, not all bonding agencies will accept financial statements of a private company with a departure from GAAP. We believe that, in the short-term, the Private Company Financial Reporting Committee (PCFRC) needs to continue holding meetings on the future of private company reporting, with the long-term objective being the establishment of a separate basis of U.S. GAAP for private companies, including a conceptual framework separate from public company financial reporting, that meets the objectives of private company financial reporting. We also recommend that a separate board be established apart from the current FASB, similar to what has been proposed by the IASB for SMEs, to set standards for private companies, because adding members to represent private companies to the current Board structure will be insufficient, as the Board's primary focus is public company reporting, which typically takes precedence over private company financial



reporting. This board could be a permanent standing subcommittee of the FASB, or semi-independent, as with the EITF. Updates published by the FASB would be reviewed by this board for applicability, interpretative guidance and the like for smaller and non-public entities. Additionally, the new board could propose updates for smaller entities, which would have to be approved by the Board. As this new board will have a focus different from the FASB's, funding of this board will need to be studied further.

Question No. 4:

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

We believe that the adoption of IFRS by the SEC would not have a significant impact on our answers, as it is our view that public and private companies have different reporting objectives that lead to the need for having two separate conceptual frameworks with different accounting and reporting standards for public and private entities.

Question No. 5:

Is there any other input that you'd like to convey to the panel?

We believe that the issues relating to private companies are also applicable to not-for-profit entities and we believe they should also be examined further by the PCFRC to determine if they should be included in future discussions, as they definitely do not fall under the model for public companies.

Additionally, it should be noted that the process of a company going from privately-held to publicly-held may become too expensive for some entities in a dual reporting model environment (i.e. big GAAP vs. little GAAP). Privately-held entities will need to keep this additional cost in mind if the FASB establishes little GAAP and the entity subsequently becomes a publicly-held entity.



Question No. 6:

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

As mentioned previously, our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

We appreciate the opportunity to offer our comments.

Sincerely,

Reva Steinberg, CPA

Chair, Accounting Principles Committee

Jeffery Watson, CPA

Vice-chair, Accounting Principles Committee



APPENDIX A ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Robert A. Dombrowski, CPA

John A. Hepp, CPA

Alvin W. Herbert, Jr., CPA

Scott G. Lehman, CPA

Matthew G. Mitzen, CPA

Reva B. Steinberg, CPA

Jeffery P. Watson, CPA

Medium: (more than 40 professionals)

Gilda M. Belmonte, CPA

Marvin A. Gordon, CPA

Ronald R. Knakmuhs, CPA

Jennifer L. Williamson, CPA

Small: (less than 40 professionals)

Barbara Dennison, CPA

Kathleen A. Musial, CPA

Michael D. Pakter, CPA

Industry:

Christopher M. Denver, CPA

Kenneth J. Frederickson, CPA

Farah. Hollenbeck, CPA

James B. Lindsey, CPA

Michael J. Maffei, CPA

Jacob R. Mrugacz, CPA

Karen R. Page, CPA

Anthony Peters, CPA

Educators:

James L. Fuehrmeyer, Jr. CPA

Laine E. Malmquist, CPA

Leonard C. Soffer, CPA

Staff Representative:

Paul E. Pierson, CPA

McGladrey & Pullen LLP

Grant Thornton LLP

Retired/Clifton Gunderson LLP

Crowe Horwath LLP

Blackman Kallick LLP

BDO USA LLP

Blackman Kallick LLP

E.C. Ortiz & Co, Ltd.

Frost, Ruttenberg & Rothblatt, P.C.

Miller, Cooper & Co. Ltd.

Ostrow Reisen Berk & Abrams Ltd.

Selden Fox, Ltd.

BIK & Co, LLP

Gould & Pakter Associates LLC

Solomon Edwards Group LLC

NGL

Hospira, Inc.

TTX Company

GATX Corporation

U.S. Cellular Telephone & Data Systems

David Lewis Co.

McDonald's Corporation

University of Notre Dame

Judson University

University of Chicago

Illinois CPA Society