

September 24, 2012

Technical Director

File Reference No. 2012-230

FASB

P.O. Box 5116

Norwalk, CT 06856

Dear Sir:

I am a former FASB Board member, EITF member, and Accounting Standards Executive Committee of the AICPA member. Also, I was an auditor with direct client responsibility for 18 years in two mid-size operating offices. My clients were large and small public companies, mid-size and small private companies, small not-for-profit entities and governmental entities.

I do not believe the Private Company Decision-Making Framework (the Paper) will accomplish its objective of identifying where modifications to Accounting Standards issued by the FASB are appropriate for **general purpose external financial reporting** issued by private companies. My comments on the Paper are directed to my major concern and my general comments.

## **Major Concern**

Although not explicitly stated in the mission of the FASB, it is discussed in the Concept Statements and generally understood that standards issued by the FASB are with respect to **General Purpose External Financial Reporting**. As stated in Concept Statement No. 8, OB5:

*Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.*

In my view the FASB exists to identify and determine what information (as a minimum) should be communicated in **general purpose external financial reporting**. Financial statements prepared in accordance with FASB standards are U.S. GAAP statements. Reports for owners, management, lenders and investors where such Users can obtain specific financial information from the reporting entity are not **general purpose external financial reports** but many such Users use general purpose external financial reporting. General purpose external financial reports are U.S.GAAP statements.

Financial reports prepared with modified standards where the modification is based on:

- the ability of User to obtain information directly from the reporting entity because of their access to the entity's management, and

- the ability of a User to agree to exclude information from financial reports based on the Users' existing knowledge about the reporting entity **are not U.S.GAAP statements**. Financial reports using such modified standards are non-GAAP or special purpose reports and should be identified as such.

Because private companies control who they provide financial reports to, private companies can negotiate with Users as to what information is included. I believe this is very appropriate and issuing non-GAAP or special reports with the specific User's information needs do not reflect negatively on standards issues for **general purpose external financial reports**. This is the same as a User accepting a Review or a Compilation rather than an Audit of the financial report. That acceptance does not reflect negatively on an Audit.

### **General Comments**

- The combination of questions in paragraphs 1.5 and 1.6 would practically cover ALL standards issued by the FASB. These questions do not identify what is supposed to be a subset of these standards. Also some of the questions are contradictory with respect to information about future cash flows(e & g), some are addressing the issues covered in Major Concern (d & i), some don't make sense (f & i), and some would add complexity (h).
- The paper describes User's needs as being quite uniform. That is not my experience as either a standard setter or working with private company clients.

- The assertion that ownership and capital structure of private companies many times are different from those of public companies is correct. However, the existence of structures where the reporting entity is one of a number of commonly controlled entities and has significant transactions with affiliates and related parties should lead to **more** accounting requirements rather than less. The additional standards should require the presentation of consolidating rather than consolidated financial statements, a display of the various entities under common control and related parties and financial information about those entities and parties so that the User can understand the significance of the reporting entity's transactions with such other entities and related parties. This is especially true where there are debt guarantees and cross-collateral debt arrangements.

Also tax information for S-Corporations should be expanded to include deferred tax and the type of tax uncertainty information that is required for C-Corporations . These matters directly affect the S-Corporation's cash disbursements to owners. Finally, specific disclosure about implicit and/or undocumented equity buy/back arrangements between owners and owners and the reporting entity should be required. Both the tax issues and buy/back arrangements affect cash flows of the reporting entities which is what the Paper asserts is the information that these Users find relevant.

- In conversations with many sole practitioners and small accounting firms (who are the accounting resource for many private companies), I have been told that receiving a hard copy of an accounting pronouncement was how they kept up with accounting changes. Now they are not getting these hard copies in the mail and keeping up is harder.

I suggest that the FASB obtain email addresses from state CPA societies, the AICPA, IMA, FEI and others for those persons involved with accounting matters. The FASB should directly send to these persons an electronic copy of all or some of the following:

**Exposure drafts** – upon issuance

**Final pronouncements** – upon issuance

A separate “**Effective Date Checklist**” for private companies and public companies – quarterly

I believe these direct communication with accounting persons will help them learn about new financial reporting guidance. I do not believe not keeping up is a basis for modifying FASB standards.

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Please contact me at 203.358.8274 or [ewtrott@gmail.com](mailto:ewtrott@gmail.com) if you would like to discuss.

Sincerely,

Edward W. Trott