Dear Sirs,


From the perspective of businesses like private equity firms who have control over the companies they have purchased as investments, this standard would not make any sense. They could control several companies that have unrelated business activities, but the consolidated financial statements would not give investors any relevant or useful information. Investors care about their initial investment and the return they are receiving on it, and not about consolidated financial statements that don’t give them any useful information about the private equity firms’ individual investments. Investors would not be able to see the financial changes of the individual investments. Additionally, depending on when investors put money into the private equity firm, they may not be owners of all the entities that are part on the consolidated financial statements.

It is common for private equity firms to buy distressed companies that need cash immediately. In situations like this, a private equity firm could buy a company at a discounted price of five cents on the dollar and they have the potential to make huge returns for their investors. Consolidated financial statements with these kinds of entities would show very low assets, extremely high liabilities and negative retained earnings. However, private equity firms have the potential to make enormous returns (10-20 times the original investment) on these kinds of investments. Having private equity firms consolidate financial statements with distressed companies wouldn’t show investors what the private equity firm has done for them. All the investor cares about is the return on their investment.

RE6 seems to be too vague. This exception could protect companies like private equity firms. However it is objective and there are no clear definitions of what would be constituted as exceptions. This section needs to be more constructive with greater details.
RE8 explains that if the entities under control are the main source of income for the controlling company, then financial statements must be consolidated. In the case of private equity firms, money is received from investors but the majority of cash inflows come from dividends paid out by the controlled companies and large influxes of cash when the businesses are sold. This does not mean that private equity firms should have to consolidate their financial statements to include their controlled entities. Consolidated financial statements would not provide enough transparency for investors.

Consolidated financial statements for private equity firms would not be beneficial to investors. The administrative time and costs to implement this would be high and there would be no benefits for users of private equity firms’ financial statements.

While this proposed statement has benefits for many users of financial statements, amendments should be put in place for investment companies like private equity firms who would be harmed by this.

Respectfully,

Ann Huntzinger
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