QUESTIONS FOR SUBMISSIONS

All respondents:

1. Please complete the form to help compile information on the respondents and send as a separate attachment. The results of question 1 will not be posted to this webpage for public viewing.

Users (e.g., lender, surety, investor, owner) only:

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

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.

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.

One of the problems with certain of the GAAP standards is that they were compromises when they were issued, rather than being good accounting. The most obvious one is of course the accounting for defined benefit plans. The portion of financial statements for privately held companies dealing with these plans are incomprehensible to the common reader and even to the moderately sophisticated reader.

The point I am making here is that the moves being made currently by FASB/IASB to improve the standards should also result in the simplification of the standards and a corresponding improvement in users’ ability to understand them.

The most irritating and useless current requirement is the one dealing with the fair value of financial instruments. For most privately helds, this ends up being a disclosure of the fair value of long-term debt, and I would like to know if anyone can come up with a user of these financial statements that finds this information of interest.

In addition, the concepts of net income and other comprehensive income make even less sense to the privately helds than they do to the publicly helds. The publicly helds at least have investors thinking they need EPS based upon net income rather than net comprehensive income. There is a lot of wasted time in carefully sorting out the portions of things that impact net income v. those that hit other comprehensive income.
b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

As noted above, I believe the standards overall are improving, so that the number of standards that create difficulty for the privately helds are diminishing. The items listed in #3 are not intended to be a complete list. So, I would answer this question as being confined to specific standards.

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

Please be as specific as possible in your answers.

The source of the issues and concerns arise from the users of the privately held financial statements being much less sophisticated in general than those of publicly helds, and also with different motivations. (Big exceptions here are the private equity funds, etc.) The most frequent primary users for privately helds are lenders and owners, rather than passive investors.

But I believe all parties would benefit from the improvement/simplification of accounting standards, where the standards are unnecessarily complicated because of past compromises.

But if companies, both privately and publicly held, have involved themselves in some complex transactions and instruments, the accounting may end up being complicated by its nature (although many complex transactions can be broken down into multiple simpler transactions).

But, after listening to Paul Pacter discuss SMEs from the International side of things, I also believe that there are many very simple companies out there that can use a product like SMEs – however, SMEs was not necessarily built for the middle market companies of the U.S. but rather for those very small companies facing statutory audit requirements or for developing nations lacking much accounting structure at this stage of their evolution.

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.

Continued work toward the improvement/simplification of accounting standards in the absence of political influence

I think a separate accounting standards board for privately helds is inefficient and would create a danger of the standards diverging significantly from those of the FASB/IASB. A better idea is to have it as a separate subcommittee of the FASB/IASB, subject to the supervising organization’s approval. I do understand the difficulty of the SEC’s oversight on the FASB, but
believe that there must be accountability of the privately held standard setter to the overarching principles of the FASB/IASB.

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?

When crafting my answer above, I assumed that would be the case, so not at all.

b) To what extent, if any, would other outside factors affect your answers above? Which factors and why?

If the SEC forbids the FASB to work on privately held matters, I suppose something would need to be done. But I doubt that IASB would be subject to that level of influence, so I am not expecting difficulties on that front.

6. Is there any other input that you'd like to convey to the Panel?

Even the privately held companies need to stay in tune with the rest of the world – to create a separate U.S. bureaucracy regarding privately held standard setting sets us apart again, when we need to be an enthusiastic joiner.

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

Mine.

If you or your organization would like to submit your responses to the questions, please email them to Tim Woo, tswoo@fasb.org, no later than Wednesday, September 15, 2010. All submissions will be considered public and will be posted to this webpage for public viewing. A summary of the responses received through September 15th will also be prepared and distributed to Panel members and participating observers. The summary will also be included as part of the observer notes (publicly available meeting handout) for the Panel’s next meeting, on Friday October 8th, in New York City. To facilitate the staff’s ability to read and summarize the submissions, we ask, notwithstanding our request for specificity, that you please try to be as succinct as possible in your responses to the questions.