September 15, 2010

AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies
c/o Mr. Tim Woo
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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RE: Request for Comments on Questions Posed by the AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies

Dear Panel Members:

Crowe Horwath LLP appreciates the opportunity to respond to questions posed by the AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies (the "Panel"). We support the Panel’s objective to improve the development and application of generally accepted accounting principles used in the private sector. Complexity in accounting standards can increase the cost of, as well as deviations from, compliance in financial reporting. Reduction of complexity applicable to private companies can address both of those issues in that very large segment of the economy.

We believe the Panel should consider the work of other accounting standard setters in considering how to apply FASB standards, especially those of the International Accounting Standards Board. In particular the panel should consider how that standard setter has approached application challenges to smaller entities. However, only one organization should be responsible for setting accounting standards to be generally applied by private entities in the U.S., as proliferation of different sets of accounting standards generally accepted in the U.S. can only increase complexity. We also recognize that issues of concern to the private sector also may impact public companies.

The following are responses to the specific questions posed by the Panel.

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.

U.S. generally accepted accounting principles have evolved more rapidly in the last 5 years than almost any other period in standard setting history. The evolution has been driven in part by the need for standards to address complex business transactions encountered today as well as those contemplated for the future. Many of these complex transactions originate in the public company sector and therefore accounting standards are many times developed in reaction to public company activity. Currently, U.S. GAAP is the same for all companies, other than the level of some disclosure requirements and the transition provisions for new standards.
Therefore private companies are generally subject to the same accounting standards that result from complex transactions of public companies. While in many cases accounting for similar transactions, whether a public or private company, should be the same, for example recognizing revenue when goods are sold, the complexity of some accounting standards can be burdensome to private companies, for example fair value.

“Private companies” is a broad term, which includes some of the smallest entities required to prepare financial statements to some very large companies that compare to public companies in terms of complexity and the needs of users. The size and type of entity as well as its primary users impacts the relevance of U.S. GAAP. There is merit in the Panel considering whether to allow different, less complex accounting standards for a small hardware store versus a multi-billion dollar global private company, and in particular the disclosure requirements.

The Panel’s evaluation should include whether the issues facing private companies consist of both accounting for transactions and the related disclosures required in financial statements, or just the level of disclosures. It is easier to change the disclosure model than to change both the accounting and the disclosures. However, we believe the current level of disclosures is an area of concern with U.S. GAAP today. The FASB has indicated in recent standards that one of the primary factors they consider in setting disclosure requirements is to meet the needs of financial statement users. The FASB has acknowledged that the users of public companies and those of private companies are often different, and therefore have provided for reduced disclosures in some standards for private companies. Even with reduced disclosures, the burden on private companies to comply with the required disclosures can still be onerous.

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

The level of disclosures is a systemic issue as current standard setting almost always adds more disclosures with the objective of providing more transparency to users. In addition, as many of the new standards require more judgment and subjective analysis, more disclosures are needed to comply with the new requirements. Preparers and auditors may struggle with how much disclosure to include in complying with the subjective nature of the standards and at times may err on the side of more disclosure to alleviate the concern of being second guessed, and due to the ever present risk of litigation.

As it relates to specific standards, some that seem particularly burdensome to many private companies are fair value, derivatives, stock compensation, pensions, income taxes, and variable interest entities. With the continued emphasis to move toward more fair value measurements in U.S. GAAP, the complexities associated with those measurements will expand the difficulties to even more private companies. Fair value is one area that should be explored in depth as we continue to hear many, including users, that prefer information based on a historical cost model rather than fair value, depending on the company’s business strategy.

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

The issues are broader than only private companies. There are many small public companies that also consider some of the disclosure requirements onerous and would likely prefer some relief based on size, similar to SEC rules for non-accelerated filers and smaller reporting
companies. Small public companies with less than $75 million in market capitalization are now exempt from the requirement to obtain an external audit on the effectiveness of internal control over financial reporting. Many believe a similar threshold would also be beneficial as it relates to disclosure requirements. Outside of disclosures, it would not seem prudent to provide a different accounting model for small public companies as opposed to large public companies, as the relative significance of application will differ based more on the nature of the business enterprise’s transactions than absolute size alone.

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.

An assessment of the primary issues and concerns facing private companies identified by constituents should be performed. Specific solutions should be described in a proposed framework and made available for public comment. However, before significant work is done on the assessment of specific issues, we believe it is critical to determine who will set standards for private companies. We understand the Panel may recommend one of the following three financial reporting models: a) U.S. GAAP with exclusions and enhancements for private companies; b) a basic U.S. GAAP with public company add-ons; and c) separate, stand-alone standards for private companies based on current U.S. GAAP. The proposed framework should identify the body/entity that would author standards for private companies. If the body/entity is other than the FASB, the Panel should describe how it would address the following:

a) How this body/entity would be funded;
b) Who would determine its members;
c) How it would follow a due process to standard setting;
d) How it would be independent and unbiased;
e) How it would ensure its standards are of high quality.

The views of private companies and their representatives must be considered carefully in addressing the issues and concerns.

We support having only one entity responsible for setting accounting standards generally accepted in the United States for private companies.

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 for public companies to adopt IFRS at a date certain could impact whether another set of accounting standards should be developed for private companies. Under this scenario, there could be four different sets of accounting standards acceptable for private companies. This would cause some confusion and certainly less comparability. If the SEC did require a date certain for public companies to adopt, consideration should be given to the current IFRS for small and medium-sized entities (SMEs). Since these standards have been accepted by the AICPA as a source of promulgated accounting, having only two sets of alternative accounting standards would be preferable.
To what extent, if any, would other outside factors affect your answers above? Which factors and why?

Changes to U.S. generally accepted accounting principles and the status of the continuing convergence with international accounting standards would impact our views.

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

The responses in this letter represent the views of Crowe Horwath LLP.

Crowe Horwath LLP supports the Panel’s efforts to improve financial reporting by private companies, while continuing to support a common framework. We hope the above responses will assist the Panel in its consideration. If you would like to discuss with us any of our observations, please contact James Dolinar at (630) 574-7878 or Wes Williams at (574) 232-3992.

Cordially,

Crowe Horwath LLP