Responses to Specific Questions –

Question 2(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.

The primary concern relates to the public company focus of the standard-setting process. The structure and funding of the Financial Accounting Standards Board drives the accounting standards process. As a result of this focus, recent accounting standards and the overall trend in accounting standards has resulted in accounting standards that are more complex (increasing fair value reporting and disclosure requirements, variable interest entities and consolidations, disclosure of uncertain tax positions, current exposures of standards related to revenue recognition and lease accounting, and convergence with International accounting standards). This trend results in increasing costs in the preparation of private-company financial statements. These costs, in many instances, do not provide an additional benefit that does not exceed the cost. This increasing complexity is difficult for users of these financial statements to understand and interpret financial results. Private companies also have greater difficulty in having the internal resources to meet these additional financial reporting requirements. As a result, they may have to out-source some of these reporting requirements. Again, this creates additional costs as these providers of services must spend additional time in gaining an understanding of the company and how these standards apply to the reporting company.

Question 2(b) – Are those issues or concerns confined to one or more specific standards, or are they more systemic?

Although, there have been certain recently issued standards (such as those relating to variable interest entities and the disclosure of uncertain tax positions) that have elevated the issues and concerns, my opinion is that the issue is more systemic. As stated in Question 2(a) the needs of the users of public company financial statements are primary driving force and focus of the standard setting for financial statements. There does not appear to be adequate consideration and thought to the needs of the users of private company financial statements during the standard setting process.

Question 2(c) – Do you believe that those issues or concerns are largely confined to private companies, or are they broader?

I am of the opinion that these issues/concerns are primarily related to private companies. The users of public company financial statements are well represented in the standard setting process.

Question 3 – What short-term and/or long-term actions do you believe are necessary to address those issues or concerns?

In the short-term, accounting standards should be reviewed by a panel of individuals representing the private company financial reporting community and make appropriate modifications to current U.S. accounting standards to address the unique needs of the users of private company financial
statements. In the long-term, consideration should be given to formation of a private-company standard setting body that is funded and under the direction and review of the Financial Accounting Foundation, similar to the Financial Accounting Standards Board.

Question 4(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?

An SEC adoption of IFRS may have an impact on my answers. Accounting education programs would adapt and respond to the adoption of IFRS. As with the accounting standards setting, higher education also responds to public company financial reporting due to the needs of public companies and their auditing firms’ needs for adequately trained professionals. As a result, it may be more difficult for private companies and their accounting firms (and advisors) to find and retain qualified professionals to meet their financial reporting needs. In addition, some of that talent is recruited from the public company environment, which may contribute to the issue of finding qualified professionals. Also, there may be confusion in the marketplace with two sets of accounting standards and also for users of those financial statements to evaluate and use those statements if they must understand two sets of accounting standards.

Question 4(b) – To what extent, if any, would other outside factors affect your answers above? Which factors and why?

The primary factor would be the acceptance of any proposed changes to accounting standards (and/or standard setting) for financial statements of private companies. These accounting standards should not be perceived as not as high-quality as current accounting standards. In addition, the user community must be supportive and accepting of private company accounting standards. They must find these accounting standards to be useful to facilitate their decision-making needs. In addition, there must be a adequate and certain funding source for any group that would be the standard-setter for private company accounting standards.

Question 5 – Is there any other input that you’d like to convey to the panel?

One other consideration other than differences between private companies and public companies may be based on size of the companies measured by either total assets or total revenues. Consideration should be given to exempting smaller companies from certain accounting standards because of their cost and complexity. Another consideration might be how widely held the stock of privately-held companies is. Needs of users of very closely-held companies may be different than those that have a greater number of shareholders.

Question 6 – Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

These are my individual views and do not represent the views of the accounting firm with which I am associated.