AICPA/FAF/NASBA "Blue-Ribbon" Panel
Written Submissions from Constituents

The AICPA/FAF/NASBA "Blue-Ribbon" Panel on Standard Setting for Private Companies (the Panel) is seeking written input from constituents in the form of responses to the following set of questions. Your responses will assist the Panel in discussing how accounting standards can best meet the needs of U.S. users of private company financial statements and making recommendations thereon to the FAF Board of Trustees (the Trustees):

Responses to Questions

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.

   Let me preface my comments by stating that my experience includes that of the Big eight CPA firm, VP Finance for a Fortune 300 subsidiary, owning my own business and on a community bank board. I currently am the Administrative Partner of a regional accounting firm included in the AICPA G400 Initiative.

   We as small to medium CPA firm deal with the everyday small business. The volume of standards and related information is almost insurmountable for us to comprehend. Unlike the large firms, we are responsible personally to keep up with current standards along with working with our clients and trying to keep abreast of tax changes. We are not a large enough firm to have an in-house staff solely dedicated to education and current changes. We have to rely on practice aids such as PPC and annually hope we have met the standards for our peer reviewers.
We find that much of what is written in the standards is Ivory Tower and has no connection to the small to medium practitioner. A good examples are goodwill impairment, hedges and swaps, and since most of our clients are S Corps or LLC’s the tax and deferred tax standards are useless. IFRS is another standard that we find useless for our clients. We have worked years to have them understand their financial statements and now we want them to change for some “ideal standard” that even I believe is at the highest levels of the Ivory Tower and is out of touch with reality. The standards we see being delivered today in and of themselves’ are the best argument for BIG GAAP/LITTLE GAAP. How many small to medium size companies deal with book vs. tax depreciation, comprehensive income, impairment of fixed assets. In reality, this is all Ivory Tower.

The standards are too complex and hard to understand, even to those of us in the business of reporting. How do you explain to a client his bill had to increase twenty percent because of some standard setting body in Connecticut that is out of touch with the small business has changed GAAP and it has not influenced him in any other way other than to increase his bill. When do we begin to look at cost justification or our actions?

It also appears we have a knee jerk reaction to published irregularities. Fin 46 is a perfect example. Should we not have consolidated VIE’s before this?

The amount of disclosure is somewhat of a mystery. We compare our client’s notes and that of the Fortune 500 and ours is so much more complete. The argument is Materiality and I can accept that however we are not playing by the same rules.

As CPA’s we still have to look at our work and the quality of our work and ask is the work product done right. The real question with the complex statements and additional authoritative information is what is right?

This may sound like a rant, however this is only part of the frustration that we practitioners have felt over the years. It appears that the AICPA has become an education membership and the FASB has lost touch with the reality of the non-SEC clients.

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

I believe the issues are systemic. The reading of the standards is difficult at best when you can find the time, along with the other authoritative literature and interpretations. Somewhere between the pages we still need enough time to meet and bill our clients along with trying to understand something someone has written that appears to not have practiced before. I would love to have all day to answer exposure drafts and look what is on the horizon. If I did, I more than likely would not meet payroll or my fees would be so high, my clients would move to a new firm.

The standards do not appear to address our needs, the non-SEC firms.

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 standard setters have looked to be the answer to all the problems in the accounting world. Every time a crack in the dyke is noted, a finger is put in and shortly you run out of fingers or you forget about the little cracks. The standard setting bodies are trying to set standards for all accountants. Not all accountants have the same needs nor do we service the same cliental. As a result, I see the need for the SEC and non-SEC groups.

This comes back to how do we legislate morality. We as a group of CPA’s have to be independent enough of our clients to “do the right thing” in any situation. Maybe we have to police the players versus the profession.

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.

I think the AICPA has to take a leading role and stand for the non-SEC group of accountants. In the long run I believe we may need two separate boards. One of the issues with the FASB is that they are paid to be a full time standard setting board and as a result, their end work product is standards and authoritative literature.

I think there should be a practitioner’s board composed of small to medium firms that would meet periodically. Membership would come from the non-SEC practice sections. This group would not have any association with the individual State societies and would set necessary standards based on principles.

In the short run, the AICPA should take the lead and let the FASB know the small to medium size businesses exist and they have lost touch with the industry that is not involved with the SEC.

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?

See my answer above regarding IFRS for our clients. If the SEC wants to adopt it, fine, just do not force this on the rest of America.

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

No comment.

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

I think we have to recognize that SEC clients have different reporting objectives than the non-SEC clients similar to governmental/non-profit and private industry. Most of the small to medium size companies have owner/managers involved in the businesses and use financial reporting for information to run their business and for financing. Other than selling their business, not many outsider’s see the financials. With that in mind, we as a profession have to change our focus.
7. Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

These responses represent my own views.

If you or your organization would like to submit your responses to the questions, please email them to Tim Woo, tswoo@fash.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.