September 14, 2010

I currently provide per-diem concurring review services to local CPA firms. I was previously the A&A technical partner at a large local firm. Prior to that, I was a manager at a national firm. I have extensive experience with both privately & publicly held entity financial statements. I believe I understand the needs of the users of both.

1. 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.

There are certain disclosure &/or calculations required in GAAP financial statements that, based on my experience, users of privately held entity financial statements do not use &/or are not interested in &/or do not understand. Also, they do not provide cost justified usefulness. Some of it is just, in the words of the SEC, “mind numbing boiler plate”. Accordingly, we should not be spending time on these disclosures &/or calculations. They should be eliminated, ASAP, for privately held entities. They include, but are not limited to, the following:

- Cash concentration risk
  o We have just been through a horrible period in our economy, and, to the best of my knowledge, not a single dollar was lost by depositors in U.S. banks.

- Derivatives
  o When a private entity enters into an interest rate swap (normally at the request of their bank) they are looking only to lock in (change) their interest rate. They do not normally care about the “current value” of the swap. The bank, on the other hand, who is normally the counter party, already has the information- if they want it.

- Deferred income taxes
  o I have yet to find a banker that uses or cares about this number. It is nothing more that a number we calculate (theoretically under the “matching” theory). It is never “proved out” in the future and is, in fact, usually eliminated (i.e. via bonuses) if the entity ever ends up in
a tax paying position in the future. All privately held entities care about is what they currently owe to the taxing authorities.

- The FIN 48 disclosures- about uncertain tax positions & open examination years- particularly in the case of pass through entities. Disclosure should only be required when there is an examination in process.

  - Forward looking information
    - Five-year tables for debt & lease payments are 4 more than are needed.

  - Stock option accounting

    - The right to purchase an interest in a privately held entity- at today's values at some point in the future- is, I believe. a "no harm- no foul" situation. The future value of a privately held entity cannot be predicted based on the past.

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

I believe there has been a systemic failure, on the part of the FASB, to consider the needs of users of privately held entity financials. They can't get the job done & they should be eliminated from the process.

The users of privately held entity financials (normally credit grantors &/or regulators) are not the same as users of publicly held entity financials (normally absentee owners). Why, then should the disclosure &/or calculations be the same (particularly when it is not cost justified to do so)?

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

I'm not sure publically held entities need to be making the first 3 above disclosures either.

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

   The FASB should immediately eliminate the above mentioned requirements for privately held entities.

   It would not be cost justified to have the FASB continue (if the SEC mandates IFRS & standards are set in London) only to set standards for private entities. Who, in that case, would fund the FASB? Would we really need all those full time, highly compensated people to set standards for privately held entities?
The AICPA already has most of the mechanism in place to assume the standards setting function for privately held entities - if we continue to insist on setting them in the USA. However, I believe we should be joining with other countries (who I assume share the same privately held issues we do) & we should adopt the SME standards of the IASB.

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?

I believe we should switch to the IFRS standards for SMEs. They have already been issued. Why do we insist on reinventing the wheel?

No matter how much we may wish to fight- or fail to recognize- this issue, movement to one set of international financial standards are inevitable. I do not understand our reluctance to do so at this time. I would appreciate your contacting me to explain this.

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

Governmental agencies should be kept out of the standards setting process.

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

This issue (“Big GAAP/Little GAAP” &/or “Differential Reporting”) has been discussed in the profession for many years. All we appear to be doing is extending the discussion & changing the terminology. LET’S GET THIS DONE!! It should not take years.

Another issue that I believe needs to be addressed is what should be included under the umbrella of “privately held”?

- Is it any entity that isn’t “publicly held”?
- Should a privately held entity, if they wish, have the option of using standards the SEC mandates? Should an entity have the option of “cherry-picking” which standards they use- as long as appropriate disclosures are made?
- Does it include “not-for-profits”- or should they have their own standards setting group (similar to GASB)?

Respectfully submitted;

Sherman L. Rosenfield, CPA