Response to "Blue-Ribbon" Panel Written Submissions from Constituents

Panel on Standard Setting For Private Companies

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Questions for Submission

All Respondents

1. See attached.

Users

2. N/A

All Respondents

3. a) Tell us about any issues or concerns you have with current US GAAP accounting standards as those standards apply to private company financial statements

Response - The proliferation of accounting standards and interpretations in recent years in areas that generally do not apply to the closely held businesses we work with, or are of a nature that do not provide any useful information to the users of the financials (management and lenders, primarily), have taken the profession to a point where we suspect many practitioners are not applying those standards properly and result in additional work that becomes meaningless to the financial statement users (for example, FIN 46R; fair value accounting with Level 1, 2 and 3 inputs; recording an asset and liability for future operating lease payments).

Whether the standard setters want to admit it or not, there are real differences in the needs and expectations of financial statement users for the large number of closely held businesses in this country. The standards have strayed too far into addressing the hybrid or complex transactions being created by publicly held companies and then imposing standards that have to be applied to every financial statement issuer in the US.

The pace of changes in recent years is also troublesome. It is becoming more and more difficult just to keep up on the changes and know which ones are effective when. We suspect that this is particularly troublesome in small firms and for sole practitioners. You have to read each standard or interpretation to make sure it doesn't apply to any client even though the title may seem to indicate it doesn't apply.

Some standards result in unintended consequences. For example, if a standard is adopted to record an asset and liability for operating leases, it may result in the asset being excluded from tangible net worth while the liability is included, causing companies to be in violation of state and federal licensing requirements or loan covenants. Trying to explain such accounting standards to regulators and some lenders is nearly impossible since they are not accountants and don't read or likely would even understand many of the standards issued by our profession.

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

Response - It is both. The current systemic approach has created some specific standards that are not directly applicable or useful for the users of the financial statements of most closely held
businesses. In addition, while a clarity project was a good idea, standards continue to be written in many instances in a manner which is difficult to read, understand and implement.

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

Response - Our practice is limited to non-public companies, so we cannot respond with respect to the issues facing publicly held companies.

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

Response - Create 3 levels of GAAP. One for publicly held companies; one for large companies (a large company being defined by revenues, assets and number of stockholders); and one for all others. This may not be a practical idea as we appear to be moving toward IFRS. If that indeed is the end result, there would seem to be no need to address these issues long-term. The short-term solution then would be to scale back on projects that have no immediate and significant effect on financial statement integrity and clarity. Projects should be looked at in terms of the intended users of the financial statements and allow them to either be optional or exempt smaller companies, where appropriate.

A separate board or committee of standard setters, made up of CPA’s from regional, rather than national firms, that only work with companies which are not publicly held, would be a good idea. Too often it appears standards are being created by individuals who don’t seem to have an idea of the nature of the operations and expectations of most closely held companies in the US.

5. To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect your answers above.

Response - See my response to number 4 above. For us, the question is not what will the SEC do since we don't deal with any publicly held companies. We need the standard setters to be thinking about the vast majority of financial statement issuers in the US that are not publicly held companies and what are the needs and expectations of their users and then create standards or eliminate standards to address those needs and expectations.

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

Response - I want to express my appreciation to the Panel for undertaking this research. The standards seem to continue to get further and further away from the basic needs of the specific users and are becoming focused on theoretical and subjective issues. We have the basic foundation in place to account for and report on the transactions that our closely held clients are entering into. That foundation should be reinforced when needed, rather than adding more and more branches to an already full tree of financial accounting standards.

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

Response - These represent the views of the board of directors of our firm. Our firm consists of 4 partners and 35 staff operating out of five offices in Iowa.