Mr. Tim Woo  
Financial Accounting Standards Board  
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14 September 2010

Request for Comments from AICPA/FAF/NASBA "Blue-Ribbon" Panel on Standard Setting for Private Companies

Dear Mr. Woo:

This response reflects the views of Ernst & Young LLP, which is one of the leaders in the US in auditing public and privately-held entities. We are keenly interested in the financial reporting standards applied by public and private entities and the usefulness of their financial statements to decision-making by investors, creditors, and other users, and thus are closely following the work of the Panel.

We share many of the concerns, expressed by a variety of constituents, that led to the formation of the panel. Specifically, we believe that US GAAP has become overly complex, largely in response to the increasing complexity of business transactions, and disclosure requirements have become increasingly burdensome. Many recent accounting standards, including those on stock compensation, financial instruments, asset retirement obligations, and consolidations, require ever more complex judgments and estimates. However, we believe the challenges presented by this complexity are not unique to privately-held companies. While in some cases publicly-held companies may have more resources to address these challenges, they often face greater burdens due to their public-company reporting responsibilities. Accordingly, we believe that accounting complexity is an issue for all companies, and must be adequately considered in the cost-benefit analysis performed by the FASB in connection with its due process for all new standards. We are not convinced that the costs of new standards have been appropriately balanced with the perceived benefits and believe the Panel’s work would be most beneficial if it could develop concepts to help the FASB with that cost-benefit analysis.

We understand some constituents propose that there should be different, less complex accounting requirements for privately-held entities. We are deeply troubled by such an approach. As discussed above, that approach would not benefit publicly-held companies that struggle with the same challenges.

We believe an approach that permits privately-held companies to apply a different accounting regime would create considerable confusion among users in that they would have to understand yet another accounting framework (we note that AICPA governing Council voted to recognize the IASB as an accounting body for purposes of establishing international financial accounting and reporting principles and, therefore, IFRS and IFRS for SMEs may also be available to US privately-held
companies). Financial statements would not be comparable between privately-held companies utilizing the new accounting regime and other companies that are not eligible for or choose not to follow the new regime. For instance, we could see many privately-held companies electing not to follow a new accounting regime because of concerns about the potential perception that the new GAAP might be inferior to US GAAP for other companies, the need to amend agreements that include US GAAP based covenants, or because of the possibility that the entity would be required to convert to current GAAP in certain circumstances (e.g., initial public offerings, acquisitions, relationships with new investors or creditors that demand legacy US GAAP financial statements). This lack of comparability could in fact harm the very companies that the Panel wishes to benefit.

While we would not support different recognition and measurement regimes for privately-held companies in the US, we do believe it would be reasonable to explore whether reduced disclosures in certain instances (compared to publicly-held companies) might alleviate the concerns of certain constituents without reducing comparability of the core financial statements. The FASB has adopted this approach from time to time, most recently in its proposal for new disclosures for loss contingencies. However, before pursuing such an approach on a broad basis, we believe that the FASB should carefully consider the needs of all users of financial statements. For example, the FASB may justify reduced disclosures for privately-held companies with a view that investors and creditors of privately-held companies have the means to obtain any additional information required directly from the company if such information is not included in the financial statements. While that may be true in some cases or for some investors, we question whether that is broadly true for all privately-held companies and for all users (e.g., employees, suppliers, other stakeholders).

We note that the SEC continues to express its support for a single high-quality set of accounting standards that could be used by companies throughout the world, including companies in the US. We believe it would be premature to consider a new recognition and measurement regime for privately-held companies until the SEC makes a decision about whether IFRS may be used by US publicly-held companies. Until that decision is made, we believe that the FASB should continue to be the single accounting standards setter for all US companies, and the FASB should carefully weigh the costs versus benefits of new recognition and measurement requirements, as well as new disclosures requirements, for all companies.

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We would be pleased to discuss our comments with the Panel or its staff at your convenience.

Very truly yours,

Ernst & Young LLP