Following are my personal responses to the Questions for Submissions offered by the Panel. These responses are my own, and do not represent the views of Hemming Morse, Inc. or any professional organization of which I am a member; including, but not limited to, the Emerging Issues Task Force of the Financial Accounting Standards Board or the Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants. I have not responded to questions directed to Users.

- 1. Form is attached.
- 2. NA
- a) My primary concern regarding US GAAP as it applies to private companies is that many private companies do not have internal expertise sufficient to properly apply many of the provisions of GAAP. This partly arises from the difficulty in understanding how GAAP applies to transactions and balances typical in private companies, and partly due to dependence by companies on its independent accountants to assist in applying the standards. The difficulty in understanding relates, at least in part, from the perceived complexity of US GAAP.
 b) The perceived complexity is not confined to any particular GAAP; however, from my experience certain transactions and events cause particular problems; those are: derivatives and hedging and financial instruments accounting and disclosure.
 c) Although there is clear evidence that perceived complexity in the areas of derivatives and hedging and financial instruments is more than just a private company issue, it is more acute to private companies because of the lack of internal expertise.
- 4. I do not know if there is a short-term solution. A long-term solution would be for standards to be written in more concise, non-technical language. I believe the FASB has taken some steps to do that in recent years (inclusion of ASU summaries and launch of the Codification, for example) but I sense preparers and their accountants are still overwhelmed by the complexity of the language. This whole problem is even more acute due to the volume of standards being considered for change due to IFRS convergence.
- 5. a) I do not see an SEC requirement for public companies to adopt IFRS affecting my responses above. US GAAP for private companies would still be within the FASB Codification and would still be subject to the complexity comments above. Even if the FASB, or some replacement body, were to turn its entire attention to private companies in the US, simplification of GAAP, without sacrificing clarity and consistency in application, would be an arduous task.
 b) Technology affects all considerations of GAAP and changes in GAAP to make it simpler to apply and easier to understand. Technology has, for instance, made it easier for private companies to find applicable GAAP in the Codification, but has not resolved the complexity issue. Not too many years ago the problem was two-fold; not only couldn't preparers understand the language, they had difficulty assuring themselves that they knew what all applicable GAAP was. At least now that latter problem has been addressed somewhat by the Codification.
- 6. I believe the Panel should not ignore the fact that many small entities in the US are not-for-profit organizations. Any solution to the problems of complexity in US GAAP should consider this fact.

Having been involved in standard-setting for over twenty-five years, I have seen the issue of whether a separate set of standards for private companies should be developed raised a number of times. Each time the answer has been that a single set of user-friendly US GAAP that applies to both public and private concerns is the answer. As you may be aware, size does not distinguish needs for standards as there are small banks that deal with more complex accounting issues than large retail concerns. Similarly, there are private concerns larger and more complex than many small public companies. Even access to information has been found to be similar as lenders have responded in the past that they can always seek further explanation from either small or large companies. Those same lenders have said that the financial statements prepared in accordance with GAAP guide them as to what kinds of additional information they should be seeking.

7. See introductory paragraph above.