

The Association for Accountants and Financial Professionals in Business

September 15, 2010

AICPA/FAF/NASBA "Blue-Ribbon" Panel C/O Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

RE: Response to AICPA/FAF/NASBA "Blue-Ribbon" Panel Written Submissions from Constituents

Dear Sir/Madam:

The Small Business Financial and Regulatory Affairs Committee ("SBC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to give feedback on accounting standards for U.S. users of private company financial statements to the AICPA/FAF/NASBA "Blue-Ribbon" Panel on Standard Setting for Private Companies ("the Panel").

IMA is the world's leading association for management accounting and finance professionals. The SBC advocates on behalf of smaller business entities (both public and private) to ensure that financial standards, laws, rules, and regulations do not disproportionately burden or disadvantage such entities. The advocacy efforts of the SBC include reviewing and responding to consultative documents issued by standard-setters, legislators, regulators, and other organizations. As such, the SBC has been very interested in the Panel's progress, thoughts, discussions and conclusions.

Question 1 – Form included as an attachment (Question1.Doc)

Question 2(a)

Private companies and specifically small companies are the backbone of the U.S. economy. However, the segment is divided into two groups; those that use GAAP financial statements and those that do not. It is the SBC's opinion that the majority of small private companies does not use GAAP financials and are therefore not an interested party to the Panel's finding, nor do we represent their responses. The other group of private companies only prepares GAAP financial statements as a requirement of their lender, surety, investor(s) or other interested party. In both groups it was consistently agreed that GAAP financials are not the desired tool for operating their enterprise. The majority of the SBC members believe that for internal operational users, cash planning and budgeting is more critical than historical financial statements. However, it is felt that if GAAP were simplified it would be more useful to small and private businesses from an operational perspective.

The users of GAAP financial statements are typically extracting key points of information and plugging numbers into models or ratios to determine the viability and liquidity of the company. Lenders are looking for debt-equity ratios and debt coverage (cash flows). Sureties are looking for risk mitigation and investors are looking for the realization of monetized returns.

The needs of users of private company financial information are very different from that of public company financial statement users. One of the main differences is access to the company. The users of private companies' financial statements can usually contact the company directly and either request more information or receive a detailed explanation. Public company users do not have such access and therefore have a greater need for transparency. U.S. GAAP appears to be driven by the needs of public company financial statement users and has added little value to the users of private company financial statements. In addition, the users of public company financial statements typically have a short-term focus. Their desire for instant valuation and fair value measurement is greater. The users of private company financial statements typically have a longer-term focus. They want to understand the collateral and the liquidity of the private company. Given these considerations, we believe that GAAP needs to be simplified.

Question 2(b)

It is apparent that the recent changes and/or suggested changes to GAAP are for the users of public company financial information and not the users of private company financial information. Private companies are frequently concerned with the relevance of accrual accounting and almost always concerned with fair value adjustments. As an example, booking a deferred rent obligation due to straight-line rent, where the landlord has granted rent abatement, causes the creation of an apparent liability where one does not exist and it accordingly distorts covenant calculations. There is also a definite uneasiness surrounding the disclosure of uncertain tax positions and pending litigation. In these two examples, transparency could actually cause financial damage to the company.

In many instances, the costs of GAAP compliance (and the related audit opinion) are considered too high for the benefit received. In some cases, the company would rather take an exception to an accounting standard and not comply with GAAP. There is also a growing concern as to how many exceptions would be required before a qualified or adverse opinion of audited financial statements is issued.

Question 3(a)

As stated above, the users of private company financial statements are adverse to SFAS 157, Fair Value Measurement and SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities and oppose any standard requiring such re-measurement. The users of private company financial statements understand "lower of cost or market" and seem accepting of related impairments to inventory and or marketable securities.

The SBC also believes that straight lining rent expense as prescribed in FASB Technical Bulletin 85-3, Accounting for Operating Leases with Scheduled Rent Increases is unnecessary and distorts the financial statements.

Private companies are opposed to the Proposed Accounting Standards Update – Contingencies, which modifies SFAS 5, Accounting for Contingencies, and requires disclosing pending litigation and estimating the probable loss in the litigation. Private companies also oppose FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, which requires a table disclosing uncertain tax positions. Lastly, private companies generally do not understand the logic behind the SFAS 142, Goodwill and Other Intangible Assets' classification of intangibles and the calculations necessary to impair goodwill.

The above items are a representative sample of accounting issues with which small business and private companies have concerns. It is not meant to be an all inclusive list.

Question 3(b)

The SBC feels that the problems are largely systemic. As mentioned above it would seem that the focus of recent GAAP has been to create the transparency desired by users of public company financial statements, not the users of private company financial statements.

Question 3(c)

The recent pronouncements are highly theoretical and involve too many calculations and estimations to be useful for private companies.

Question 4

It is our opinion that there should be a base level of standardization governed by FASB that would include the governance of private companies. However, we do not believe the needs of public companies should determine the accounting standards for all businesses. The SBC generally favors adopting IFRS for Small and Medium-Sized Entities (SMEs) as a viable alternative to U.S. GAAP.

Question 5(a)

Since SEC requirements are for public companies, any mandate is largely irrelevant or not applicable to small private entities.

Question 5(b)

In the case where lenders, sureties and other users of small private entities may adopt a regulation, ruling or a methodology and require its accounting adoption, that would impact some of the answers above. For example, when the Sarbanes-Oxley Act was first introduced, some lenders put the requirement into lending documents that the borrower must be compliant with Section 404. That was an extremely burdensome requirement on smaller private companies who were never intended to be covered by the Act.

Question 6

It is a common opinion of the SBC members that IFRS for SMEs is a concise, simple and reasonably complete guide which would be acceptable for private company financial reporting. We would encourage the Panel to consider recommending IFRS for SMEs.

Question 7

These responses represent the collective views of the SBC and other private company members of the IMA. To summarize, we believe U.S. GAAP should be simplified and that IFRS for SMEs takes most of our concerns into consideration. Therefore, we recommend that the FASB should use IFRS for SMEs for private company financial reporting.

I would be pleased to discuss the SBC comments and responses with the Panel's members and/or staff should there be any need for clarification or expansion. Please feel free to contact me at (202) 207-0130.

Sincerely,

Irvin André Alexander, III

CMA, CFM, CPA, CAE

Chair, Small Business Financial and Regulatory Affairs Committee

Institute of Management Accountants

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