AICPA/FAF/NASBA "Blue-Ribbon" Panel Written Submissions from Constituents

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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.

Current U.S. GAAP accounting standards are complex and burdensome on privately held businesses. The accounting standards increasingly require business capital to be redirected to financial reporting compliance rather than business operations. The increased costs are either internally borne by the company and/or through higher professional fees paid to their CPA.

These additional costs are difficult for business owners to justify or comprehend since very little value is perceived. The best example I can provide is FIN 46R. The adoption of FIN 46R generally leads to additional professional fees to consolidate the additional entity (usually the real estate holding company and at times another operating company). In some situations, this had led to audits of these additional companies at a significant cost to the business owner. Prior to FIN 46R, the same business owner would have provided the real estate holding company's tax return to their lender as well as their financial statement with existing related party footnote disclosure regarding the rent arrangement.

This issue has only magnified itself during the last three years as privately held businesses have been cutting costs to deal with the economic recession.

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

The issues and concerns are systemic in that the standard setters fail to distinguish the needs and uses of financial statements users for privately held businesses versus publicly held companies.

For example, the standard setters in the last ten years or so have pushed a fair value agenda which is embedded in various accounting standards such as annual goodwill impairment testing, long term asset impairment and valuation of various derivatives and alternative investments. These matters might be relevant to financial statement users of publicly traded companies but most of the times are not relevant to the financial statement users of privately held business.

Also, the primary users of privately held businesses such as a lender usually have direct access to the business owner and upper management and can obtain additional information as the situation dictates. For example, the lender will require a borrower to obtain a current business valuation of their real estate and equipment to assess their credit exposure on its collateral versus the long term asset impairment required under the accounting standards.

In addition, some of the most problematic accounting standards in recent years for privately held businesses are a result of the standard setters trying to address financial reporting scandals committed by publicly held companies. The best examples would be FIN 46R, FIN 48 and FASB 157. The standard setters determined, however, that privately held companies should not be exempted from complying with these standards by and large.

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

These issues and concerns have impacted not only privately held businesses but not for profit entities as well as employee benefit plans in our firm's practice. Our current FAS 157 footnote disclosure on our employee benefit plan financials runs approximately three pages.

What short-term and/or long-term actions do you believe are necessary to address those issues or concerns? Please be as specific as possible in your answer, and explain your reasoning.

In the short term, I would like to see an exemption from some of the recent accounting standards as noted above for privately held businesses.

In the long term, I believe the creation of a separate board to set forth accounting standards for privately held businesses is the solution. The board should consist of members who understand the issues of privately held businesses as well as the users of those financial statements.

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

The SEC's adoption of IFRS for public companies would not affect my responses. If anything, the SEC's adoption of IFRS might only compound the problem due to the trickle down effect.

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

None

Is there any other input that you'd like to convey to the Panel?

I appreciate the opportunity to be able to express my views on these critical issues facing our profession and more importantly US businesses.

I believe in its simplest form a set of financial statements is a communication tool between the reporting entity and its various users. It seems we have reached a point whereby even simple business transactions no longer are just that. Rather, simple business transactions under our current framework known as U.S. GAAP has become complex in how they are measured, recognized and disclosed.

Something is not right when business owners struggle to understand their own financial statements or when I get a phone call from a lender asking me what the profit is on the FIN46 consolidated financials statements they have just received from our mutual client.

Right now most privately held businesses in our country need access to capital. The financial statements CPAs prepare are one of the primary factors in that decision making process. We need to ensure that the business's financial statements clearly communicate relevant financial information to the users under a body of standards which is built around privately held businesses.

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

These are my views and a majority of those within our Firm.