

October 31, 2012

Technical Director – File Reference No. 2012-230 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk CT 06856-5116

Mail to: director@fasb.org

Technical Director:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (FASB) Discussion Paper (DP) No. 2012-230, *Invitation to Comment – Private Company Decision-Making Framework – A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*.

BerryDunn is a regional firm that audits approximately 500 private companies and not-for-profit organizations. We also audit a small number of SEC registrants.

We previously commented on the Financial Accounting Foundation's Request for Comment, *Plan to Establish the Private Company Standards Improvement Council*. Within that comment letter we expressed our belief that the focus of the "public company" vs. "private company" debate should be on the needs of the users of the financial statements and not the nature of the entity issuing financial statements.

We are in agreement with the FASB staff's assessment that the users of private company financial statements typically are lenders, other creditors and, at times, equity investors, and that their focus when using financial statements tends to be on cash availability, liquidity, and cash flows, including ability to service debt. The financial statements of private companies are often not available until a somewhat longer window after the reporting period has ended than is the case for public companies, especially those who are accelerated filers, and accordingly much information relevant to the private company financial statement user is obtained via other communication directly between management of the private company and the user. Conversely, public company users tend to buy and sell relatively small interests in the companies they invest in, and only have access to information publicly available to them. Share price and investment return are of the utmost interest to these users, and accordingly receipt of financial statements containing relevant fair value based information, on a timely basis, is critical to their decision making.

As FASB and the Private Company Council (PCC) move forward with developing a decision making framework to be used in determining specific circumstances under which recognition, measurement, disclosure, presentation, effective date, and transition requirements should differ for financial statements of private companies under generally accepted accounting principles (GAAP), we recommend the distinction be based on the needs of users, rather than the characteristics of the entity. Specifically, we recommend the framework be designed to facilitate the development of a separate

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basis of accounting, which is responsive to the first group of users described above. This ability to tailor financial information to meet the needs of users utilizing two formally promulgated bases of accounting would be most beneficial to financial statement users. Those two bases are summarized as follows:

- 1. A "mixed attribute" basis, which seeks to provide information to users relating to both fair value of individual assets and liabilities and historical cash flows, to assist them in assessing the fair value of an entity. This basis would make use of the many elements of current GAAP that focus on fair value, such as accounting for derivatives, stock options and annual impairment assessments of goodwill. We believe it would be important to present financial information under this basis in a manner that enables the users to distinguish cash flows from other items reported in the financial statements, as historical cash flows are often important in the assessment of fair value.
- 2. A "cash flow" basis, which seeks to provide information to users to assist them in assessing an entity's use of resources, and ability to repay them when required. Many of the current "noncash" accounting requirements that have been the subject of criticism by these users, or are "factored out" by them when they analyze an entity's financial statements, would not be applicable to this basis of accounting, thus enhancing the value of the financial statements to these users. It would still be appropriate to recognize impairment losses in certain circumstances; such losses would represent a "reclassification" of historical cash flows from an asset to a loss, when it is considered probable amounts recognized as assets do not reflect ability to generate future cash flows from such assets.

An approach whereby a decision-making framework is based on a "laundry list" of 14 factors such as "Does it affect inventory?" and "Will it require changes to information systems?" lacks sufficient conceptual basis to enable FASB and the PCC to consistently focus on the key needs of the two types of financial statement users described above. The current options available to prepare financial statements using GAAP, or one of a variety of other comprehensive bases of accounting (OCBOA) such as the cash basis or income tax basis, reflect an effort by preparers to tailor financial statements to meet the needs of users, but lack a conceptual framework. FASB and the PCC have a tremendous opportunity to furnish such a framework through development of two formally promulgated bases of accounting such as a mixed attribute basis and cash flow basis, as described above.

In addition, this approach enables FASB to avoid the need to define a "private company" for purposes of determining which rules to apply, a definition that is currently proving to be very challenging and risks having an element of arbitrariness (such as a threshold number of investors) that would not be principles-based. Instead, through a dialogue with users, an entity would choose from two bases of accounting, both with well-articulated conceptual frameworks, based on the needs of the users of its financial statements. (We presume, of course, that the SEC would continue to mandate the current GAAP model for issuers of securities subject to its purview.)

We appreciate the opportunity to submit these observations for your consideration, and look forward to FASB's and the PCC's continued efforts in this important area.

Sincerely,

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