QUESTIONS FOR SUBMISSIONS

All respondents:

1. Please complete the <u>form</u> to help compile information on the respondents and send as a separate attachment. The results of question 1 will <u>not</u> be posted to this webpage for public viewing.

Please see "entity form" attachment.

Users (e.g., lender, surety, investor, owner) only:

2. a) Briefly describe how you use GAAP financial statements in your decision-making concerning private companies.

The primary difference between public and private company reporting is the perspective of the owners and other users (banks) of the financial statement. Most of our private companies owners prefer OCBOA statements and typically find that information provided from cash-basis or tax-basis financial records provide the information that is most critical to their decision making process.

The fundamental operating and reporting differences between public and private companies are:

- A private company owner's primary reason for creating a reporting entity is to limit risk and will retain as little capital in a reporting entity as possible to limit risk exposure, whereas a public entity will often retain capital to build shareholder value.
- Private owners will typically withdraw cash by salary and rent. Public companies distribute cash as dividends.
- Private owners will create multiple related entities and often rent real
 property from related entities to limit risk exposure. These related
 entities are generally regarded as separate unconsolidated reporting
 entities by private owners and lenders. The same transactions would
 be regarded as conflicts of interest and require consolidation in public
 companies.
- In a private company sale the primary appraisal value is based on cash flow to owners (from salaries and rents). Whereas as public company valuations are typical based on both income and fair value measures of underlying assets.
- b) Tell us about any issues or concerns that you may have with respect to the **relevance** of the information contained in those statements. Please be as specific as possible in your answer.

 Most private companies find little relevance in disclosures required by GAAP and consider the cost of preparing GAAP information to be an ineffective waste of their resources.

All respondents:

3. a) 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.

Some of the most irrelevant, confusing and costly GAAP requirements are:

- Fair value reporting for assets not held for sale
- Fair value reporting of long-term liabilities
- Any fair value reporting where published market pricing does not exist
- Comprehensive income reporting
- Consolidation not required by tax law (variable interest entities)
- Stock compensation reporting that differs from tax reporting
- · Recording intangible assets not recognized by tax law
- Deferred tax reporting
- Uncertain tax position reporting
- b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

It seems to be systemic resulting from the essential differences in the operations and reporting needs of private companies versus public companies as discussed in the answer to 2 (a).

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

Please be as specific as possible in your answers.

The issues seem to be large and deepening due to the push for international standards. Please see the answer to 5 a) below.

4. 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.

- The current trend to delay or phase-in the implementation of new standards for smaller and non-public companies is helpful, since smaller entities do not have the resources to assess the impact of emerging issues.
- Private companies should be exempted from standards that do not benefit the assessment of their essential operations. (Please refer to answer 3 a).
- 5. a) To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect your answers above? Why?

As international operations of both public and private companies increase, it seems the essential differences in the operations and reporting needs of private companies versus public companies as discussed in the answer to 2 a) will continue to exist and many if not most of the differences will apply to private companies operating in foreign companies

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

If there were substantial changes in governmental regulation which may alter the way in which private companies form entities or capitalize and finance their operations (nationalization of the companies or their lenders would be an extreme example) could affect these answers.

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

If the Blue Ribbon Panel concentrates on the essential differences outlined in answer 2 a) as a conceptual foundation for your work it should make your task much easier and the urgent need for your work apparent to all interested constituencies.

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

These answers are my individual view and should not be attributed to any organization or committee on which I serve.