

October 10, 2012

Ms. Susan Cospers, CPA
Technical Director, File Reference No. 2012-230
Financial Accounting Standards Boards
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Invitation to Comment - Private Company Decision-Making Framework ("Framework")

Dear Ms. Cospers:

Thank you for providing us an opportunity to comment on the above referenced Framework. RC Holsinger Associates, P.C. ("RCHA") is a regional accounting firm located in the Pittsburgh suburb of Wexford, PA. Our two partners oversee 40 team members, including 11 CPA's. We perform tax, audit, consultation, valuation and agreed upon procedure engagements to a wide variety of clients, including small business, not-for-profit, government, and employee benefit plan clients. Our clients have operating budgets ranging from \$25,000 to \$1.5 billion. We do not service public companies. Our last eight peer reviews have resulted in an unqualified report with no findings.

RCHA believes that small businesses are the lifeblood of our economy, and that their continuing health will continue to be a significant driver in the overall United States economy. Management of these small businesses requires clear and accurate financial information to operate, finance, and grow their entities. Unfortunately, the trend of accounting guidance and standards in recent years has been the expansion of disclosures that, while necessary in the public arena, obscure the information needed by the users to make meaningful and relevant analyses. It has increased costs for both the business and the accounting firm, while requiring users to read through disclosures that offer limited value.

RCHA also believes that our not-for-profit community continues to provide much-needed services in numerous different areas in a more efficient manner than many government agencies. Many of these critical organizations run on razor-thin budgets staffed by passionate individuals who are compensated well below their for-profit brethren. Additional costs to these organizations, especially in times of decreasing government and private grants, are especially counter-productive.

As such, RCHA believes that there continues to be a need to consider the benefits of existing and proposed accounting pronouncements as they relate to the small business and not-for-profit communities. While this Framework does not contemplate the not-for-profit situation, we believe that this proposal is a significant step in the right direction overall.



RCHA believes that the Financial Accounting Standards Board (the “Board”) has done a commendable job of recognizing the differing needs of the various users of public company and private company financial statements. It is this difference that drives the logic of the underlying Preliminary Staff Recommendations, as is appropriate.

Throughout the Framework, the Recommendations give first priority to the needs of the user, which is appropriate. However, in various places throughout the Framework, such as Paragraph 2.6, it is made clear that less weight is put on the cost of providing the disclosure. While we appreciate that consideration is given to this factor, RCHA is concerned that the Board may not consider the cost of an audit to a small business. It is noted that the nomenclature throughout the Framework is “private company”, not “small business”. The difference in the ability to absorb additional accounting costs is significant between a “private company” (which may have \$100 million in assets) and a “small business” which could have less than \$100 thousand in assets.

With that in mind, RCHA responds below with the understanding that there is a distinct difference between “private company” as apparently envisioned by the Board and the “small business” that is a significant part of RCHA’s client base.

Rather than a bright line that differentiates a “private company” from a “small business”, RCHA suggests that such a definition concentrate on the qualities of each type of entity. A private company would generally have one or more degreed accountants on staff, supervised by one or more CPAs. Small businesses frequently employ non-degreed accountants, many of whom perform their duties part-time, or in conjunction with other administrative duties. Private companies are more likely to have written internal control policies and procedures. Small companies have limited segregation of duties. Private companies are financed by national lenders, or a syndication of such lenders. Small businesses are financed by the small business lending department of such banks, or by small community banks. Private company loans, while collateralized, are generally not guaranteed. Small business loans are frequently collateralized by company assets and the personal guaranty of the owner(s).

RCHA also notes what we consider to be a missing component of the Framework. We feel that any new accounting requirement must answer the question “Why?” with a reasonable and cost sensitive foundation. RCHA is frequently called upon to answer questions such as:

- Why must we report this affiliated company when, for purposes of operational management or lending covenant calculations, the consolidated report distorts the usefulness?
- Why must we have nearly a two page disclosure of fair value definitions and other required disclosures for a speculative level 3 real estate investment for which the only transaction would be a sale once real estate prices improve?
- Why do we need to have an actuarial report to properly report the present value of the defined benefit pension plan that we froze ten years ago, but still has 15 participants?

In such cases, it is more cost-efficient for a client to issue a qualified report (with users’ consent) than to implement the accounting treatment needed to issue a clean opinion. A small business may not be able to respond to the above situations because in their circumstances, such situations would be material. Surely, qualified reports for such “departures” should not be a continuing trend in our small business community.

Generally accepted accounting principles (“GAAP”) as currently written is, understandably, geared toward public companies with significant accounting budgets and fully qualified accounting staff. The Framework, as proposed, suggests modifications and exceptions from this big company approach. RCHA favors, for the reasons stated, a Framework that would envision the limited resources and actual competencies that exist in our nation’s small businesses and not-for-profit organizations. RCHA feels that, in general, this Framework does not go far enough in those considerations.

RCHA also would like to see the Board consider these changes expanded to not-for-profit organizations as soon as practical. While we understand that this Framework expressly excludes such organizations, we would not be properly serving our not-for-profit clients if we did not forward their concerns to the Board as they contemplate these changes.

With the above in mind, RCHA appreciates the Board taking into account the differences between public companies and private companies that are enumerated in Paragraph 7 and elsewhere. We suggest that additional differences between private companies and small businesses be further considered as follows:

I. Types and numbers of financial statement users

Paragraph DF2 notes that private companies typically have a much smaller number of users than many public companies, and that “lenders and other creditors and equity investors” are typically the most common users of private company financial statements. Further, private companies control to whom they give their financial statements. RCHA suggests that small businesses do not have “equity investors” other than the owner(s), who is (are) actively involved in the day to day management of the company. As such, the “equity investors” are intimately familiar with the financial statements without significant disclosures.

The other significant users of small business financial statements are lenders. However, the lenders are generally small business departments of larger banks, or local banks in the company’s community. These small business lenders are frequently partners with the business, and are similarly familiar with the financial statements without significant disclosure. RCHA, where appropriate, involves lenders in discussions regarding financial statements, so that the financial statements can be issued with the greatest benefit to the user at the lowest possible cost to the business.

II. Access to Management

Paragraph DF4 points out that “private company investors can request and often obtain additional material information beyond what is included in financial statements from management”. RCHA suggests that small business differs from private companies in that small business “investors” are frequently also actively involved in management and governance of the business. As such, the financial information that the Board suggests can be requested and obtained is, in fact, sometimes produced by the “investors”. This situation allows RCHA to strongly agree with Paragraph D5, which states that “those users generally have less need for detailed note disclosures than do users of public company financial statements”.

Paragraph DF4 also states that lender's "relationships with management of private companies often are more extensive" than those at public companies. RCHA would suggest that a lender's relationship with management of a small business is more extensive than that of a private company. The Board correctly notes that "many users of private company financial statements use the U.S. GAAP financial statements as a secondary source of information or during the late stages of their decision making process to validate or corroborate their preliminary views and decisions about a company obtained through means other than financial statements". This well-stated truth is the best argument that could be made for relief from extensive disclosures for small businesses.

III. Investment Strategies

RCHA cannot agree in general to the statement in Paragraph DF6 that "equity investors in private companies most commonly consider dividends, possible buyouts, business combinations or, less frequently, initial public offerings as the sources for their return on investment". While true for private companies, small business "equity investors" frequently look to their investment as a way to support families, pay their taxes, and perhaps, allow for future generations' wealth. Very few, if any, RCHA clients pay dividends, although our partnerships and subchapter S corporations frequently distribute equity to cover their personal tax liabilities. The remainder of earnings are retained for future business needs. Therefore, the "investment strategies" of small businesses are rarely based on financial statements, but rather as tax or estate planning. RCHA, therefore, feels that the Board has not adequately addressed this point.

IV. Ownership and Capital Structures

RCHA agrees with Paragraph DF8 that "the capital structure and capital funding of private companies vary from that of public companies", and feels that the resulting Implications are appropriate for both private companies and small businesses.

V. Accounting Resources

RCHA suggests that while the statement in Paragraph DF10 is correct that "private companies generally have fewer and less specialized accounting personnel than public companies have", small businesses have even less than private companies. Some of our clients not only lack CPA's "to actively participate in the standard-setting process and to closely monitor changes in accounting guidance", but their books are maintained by an outside bookkeeping firm or a clerk who is also in charge of other office duties. The Implication in Paragraph DF11, therefore, that "the Board and the PCC should consider the limitation of resources in assessing the costs to private company preparers" does not appear to go far enough in the case of small businesses. Incremental costs to a small business have a greater impact than those of a private company.

VI. Learning about New Financial Reporting Guidance

Paragraph DF12 states that "many preparers of private company financial statements said that they learn about new financial accounting and reporting guidance in the second half of the calendar year, and many receive significant educational updates once or twice a year".

It is RCHA's experience that many small business clients only receive "educational updates" during planning meetings and fieldwork relating to the audit. As noted above, many small businesses have their books prepared by outside bookkeeping firms or a clerk in charge of other office duties, and rely primarily on discussions with their accounting firm for the limited updates they require. Just as frequently, they simply do not understand the purposes for the accounting changes, and see them as an impediment to running their business.

In conclusion, then, RCHA applauds the Board for considering changes to the current Framework due to the differences between public and private companies.

We do not feel, however, that the Board goes far enough in considering the differences between public companies, which could still include companies with millions of dollars of capitalization, and small businesses, which frequently include companies with minimal equity.

RCHA also is of the opinion that the Board also needs to consider expanding the proposed Framework to include not-for-profit organizations. Rather than incremental changes from the standards imposed on public companies, RCHA favors an approach that begins with the realities facing small businesses and not-for-profit organizations.

Question 1a: Please indicate whether you are a financial statement preparer, user, or public accountant.

RCHA is a regional public accounting firm located in the Pittsburgh suburb of Wexford, PA, with a branch office in Honolulu, HI.

Question 1b: Not applicable to RCHA

Question 1c: Not applicable to RCHA

Question 1d: If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on private companies or both private companies and public companies.

RCHA has two partners who oversee 40 team members, including 11 CPA's. We perform tax, audit, consultation, valuation and agreed upon procedure engagements primarily to small business, not-for-profit, government, and employee benefit plan clients. We do not service public companies.

Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies?

RCHA feels that the Board appropriately identified the differences between public and private companies. RCHA feels, however, that there is a further difference not identified by the Board; namely, the differences between private companies and small businesses. These additional differences have been enumerated in other areas of this response.

Question 3: Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner?

RCHA believes that the Framework will result in appropriate financial statements at a more cost-effective manner. RCHA is concerned, however, that the measures do not go far enough in assessing costs to small businesses for the reasons enumerated in other areas of this response.

Question 4: Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries?

RCHA disagrees with this part of the Framework because of our work in the not-for-profit area. Our clients are required to apply guidance from ASC 958 regardless of size when, in fact, these entities would benefit most from relief relating to excessive accounting regulations.

For specific industries other than not-for-profit organizations, RCHA feels that many of the requirements under industry-specific guidance is good information required to manage the business and, therefore, we would encourage our clients in those industries to apply them.

Not-for-profit organizations have similar dynamics to businesses, in that there are both large and small organizations. Large organizations, such as United Way, have different reporting requirements than a local organization, which needs statements with which to attract funding sources or to satisfy a bank or grant requirement. As such, RCHA strongly recommends that not-for-profit organizations be considered in implementing this Framework, or that a similar project for not-for-profit organizations is introduced in the near future.

Question 5: Do the different areas of the Framework appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the *red-flag approach* often used by users when reviewing private company financial statements?

RCHA believes that the information needs described in the Framework are appropriate for private companies, but not for small businesses, especially in the consideration of “equity investors”. This area, in particular, illustrates the Board’s predisposition toward large companies, private or public. The stated implications relating to equity investors versus owners are significantly different. However, the *red-flag approach* to disclosures is generally more appropriate for small companies than detailed disclosures.

Question 6: Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework?

RCHA believes that questions’ effectiveness will be effective if they are asked in association with an understanding that there is a difference between a private company and a small business, a difference that is not reflected elsewhere in the Framework. Without considering this difference, there is still a significant risk that any modifications to guidance for a private company will still be irrelevant and cost-prohibitive to a small business.

Question 7: Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider?

RCHA believes that these areas of disclosure are appropriate, when material, to all companies.

Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies?

RCHA believes that this presumption is appropriate.

Question 9: Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance?

RCHA believes a phase-in period is appropriate. This approach is also beneficial for accountants of small companies, who have the opportunity to study the financial statements of larger companies, and determine the most cost-effective way to implement the new requirements.

Question 10: Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies?

RCHA believes that, in general, this would be appropriate.

Question 11: Do you agree with the basis for the Board's tentative decisions reached to date about which type of companies should be involved in the scope of the framework?

RCHA agrees with the definition of a private company as included in the Framework. However, as stated throughout this response, that definition will not differentiate between a "private company" and a "small business". Such a definition should include a distinction based on properties of a small business, which might include composition of accounting staff, limited segregation of duties, banking relationships with small business departments or community banks, and ownership versus investing strategy of the equity holders.

Question 12: Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework?

RCHA strongly believes that the Board must include not-for-profit organizations in any Framework that could provide cost relief through reduced or modified reporting burdens. As stated above, additional differentiation between a "private company" and "small business" is strongly encouraged.

Question 13a: Do you think that a private company that elects to apply any difference in recognition or measurement guidance should be required to apply all existing and future differences in recognition and measurement guidance?

RCHA believes that an all or nothing approach would reduce opportunities for companies to manipulate financial information in such a way that skews results. This approach, however, effectively creates a new accounting standard. As such, this would create an opportunity to consider a "little GAAP" standard for small businesses, an opportunity RCHA would strongly encourage.

RCHA believes that a different standard for private companies would not result in significant confusion in the small business financial statement user community. In addition to financial statements issued in accordance with GAAP, our practice also issues numerous financial statements on the cash basis or income tax basis of accounting, and the users are capable of distinguishing the differences from GAAP.

It is not a logical argument that users would find comparability with a new standard difficult on an ongoing basis (that is, after initial application), when a user of a cash basis financial statement has no such concern. It would simply be a matter of the users orienting themselves with the nuances of the particular accounting framework being reported, something that is expected of them anytime an existing standard changes. Of course, communication between the accounting firm, client, and end users are required to ensure that the proper framework is considered in planning, the requirement of which would not change if there are differences in GAAP.

Question 13b: Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (disclosure, display, effective date, and transition method)?

As stated above, RCHA believes in an all or nothing approach to a new Framework, which would reduce opportunities for companies to manipulate financial information.

If there is a need for any clarification of these comments, please contact us at 724-934-4880. Thank you for the opportunity to submit these comments. We appreciate the consideration given to our input.

Sincerely,

RC Holsinger Associates, P.C.

RC Holsinger Associates, P.C.

JH/lk