

Comments for FASB on Standard Setting for Private Companies
Bruce Benator
Managing Partner for Williams Benator & Libby, LLP

3(a):

My primary concern is that US GAAP for private companies creates an unreasonable cost burden on the companies who have to prepare these financial statements. They typically do not have the in house staff to properly apply the current standards without utilizing outside consultants including CPA's and valuation experts. Additionally, the cost of their annual audits or reviews is increased due to having to audit or review the application of these standards. As a result, there is significant cost to the companies with minimal benefits. As a percent of these companies' revenues, these costs are unreasonably high. In most cases, the users of the financial statements, which primarily consist of bankers, potential investors or acquirers, or top management of the company, do not utilize the additional data provided in the financial statements. Most of the users are focused on tangible assets and liabilities, the EBITDA of the company, and the cash flow. The non cash adjustments such as amortization of intangibles, good will impairment, stock compensation, non controlling interests, etc. are not overly relevant to the users. Many of these companies are opting to use OCBOA (other comprehensive basis of accounting) approaches such as "income tax basis" financial statements to avoid these costs, when this is not the most optimal approach, since the income tax basis financial statements may not reflect true accrual accounting (for example, not recording bad debt reserves or inventory reserve or appropriate accruals).

A secondary concern is that the GAAP requirements are not what the users want or need. For example, consolidation of certain VIE's does not make sense to the preparers or users. For example, consolidation of a real estate entity which is financed separately is not what the banker's typically need. They prefer receiving separate financial statements. Of course, the current "work around" is a qualified opinion and appropriate disclosure, but that seems to be a fairly harsh approach when disclosure would probably be satisfactory for the users.

3(b):

My concerns do not apply to all of the standard, but apply to the standards that require valuation analysis primarily. For example, goodwill impairment, acquisition accounting, compensation related to share based payments, and similar standards. Note that a more practical approach could be utilized in these areas, which would not impact the value of the financial data to the users. Additionally, certain standards are very complex and are very difficult for the preparers to implement, and they again don't have the staff and need to place too much reliance on the outside auditors to assist them in their implementation. One of those examples is the current requirements for recording an accrual for uncertain tax positions. The companies do not have the capabilities to make these determinations, and additionally, they are concerned about how such disclosures and accruals may impact them financially. Some of the complexity could be eliminated and still provide meaningful financial statements.

3(c):

I think these issues are primarily confined to private companies. Most public companies can justify the staff to implement the standards due to their size. Of course, some of the standards may not present information of use by the public company users, but I am not in a position to comment on such.

4:

I think short term there needs to be some exceptions for private companies in applying current GAAP requirements. They can opt to elect out of applying these standards and would disclose such in the financial statements. They can elect to apply them if they want, but would disclose such. There are similar example in the current literature right now (segment reporting, accounting for redeemable instruments, and various disclosure requirements).

I think long term, there needs to be a separate set of standards for private companies ("little GAAP"). These can take the same basic principals utilized in setting big GAAP, but can be applied in a more practical approach, consider the unique situation of private companies and the users of their financial statements. The current standards can be reviewed, and the modified standards can address the troublesome and costly areas and be modified for private companies and non-profit companies in many instances.

Additionally, the extent of changes in standards should be considered. For example, the standards on accounting for business combinations have been totally modified twice over a ten year period. This is too much change for the typical private company to absorb and should be limited. Obviously, economic changes occur which justify changes in the model, but these should be limited to minimize the cost the companies and the confusion to the users due to accounting changes. The cost and amount of change needs to be considered when making changes in standards for private companies.

5. a)

I do not think the IFRS adoption impacts my conclusion. Just because the SEC companies adopt IFRS, does not mean the private companies should. If a private company has significant international operations, possibly adoptions of IFRS standards may make sense, but otherwise, it is not overly relevant to them or the users of the financial statements. The preparers, users and auditors understand U.S. GAAP for private companies, and there is not overriding reason to convert to international standards.

5 b)

Not sure if any other factors would impact my conclusion. Obviously the needs of the primary users would have an impact, but I do not see those changing very often.

6.

No other specific input other than the Panel should move forward on this initiative. The international community has already attempted the address the issue with the IFRS for Small and Medium size companies. As accounting standards get more complex and continue to move towards fair value accounting, these issues become more difficult for the preparers of financial statements for private companies.

7.

These are my individual views, but I believe they express the opinion of most of the CPA's in my accounting firm, my clients, and many of my peers.