

September 2, 2010

Written submission to AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies

1. Form is enclosed.

2. N/A

3a. As a local CPA firm, our main concerns are the complexity of recently issued accounting standards, and the increasing amount of subjectivity inherent in the standards. These factors drive up costs to our clients. In addition, the increasing subjectivity poses a larger liability risk for practitioners.

3b. The problem is becoming systemic as more and more standards are complex and subjective. Examples over the last few years include:

Consolidation of Variable Interest Entities: In addition to being extremely complex and hard for practitioners to understand (let alone clients), it involves some very subjective opinions as to whether the criteria are met. In addition, users rarely want to see combined statements, but to leave them out requires a GAAP departure or OCBOA statements, which users could take exception to.

Uncertain Tax Positions: once again some very subjective judgment calls must be made. Smaller companies are rarely audited by the IRS, so the "liability" will almost certainly never be paid.

Fair Value: Once again there are very subjective judgments that must be made, especially with regard to Type III items.

3c. It is more of an issue for private companies. Owners of smaller companies are not sophisticated financial experts. They want to see "real" numbers on their financial statements. For example, for a liability they want to see the actual principal balance due, not the fair value. They don't want to see liabilities for uncertain tax positions, since these are theoretical liabilities that will almost certainly never be paid. My experience with users such as banks and bonding companies (frequently not sophisticated financial experts either) is that they feel likewise.

4. We would like to see an exemption for private companies from the standards listed above, as well as others that do not enhance the quality of information provided to management and users of the financial statements. In the vast majority of cases, users of private company financial statements are either:

management-which uses them for planning purposes; and

banks and bonding companies-which are interested in hard assets and liabilities and not theoretical ones.

5a If public companies are required to adopt IFRS, perhaps that would allow GAAP (which would then presumably be used only by private companies) to be simplified.

6. No other input at this time.

7. These responses are the opinions of our firm.

Mark Baker, CPA
Hoots, Baker & Wiley, PC
Salem, Oregon