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PricewaterhouseCoopers LLP appreciates the opportunity to respond to the questions posed by the Blue Ribbon Panel on Standard Setting for Private Companies (the "Panel"). We have listened closely as the Panel has discussed the needs of the users of private company financial statements and the concerns expressed by preparers and auditors. In those discussions, it was asserted that users value general purpose financial statements in many instances. And, although some users do not understand the intricacies of certain standards, they nonetheless seem to find comfort in audited financial statements using those standards.

We believe that the issues underlying the Panel's deliberations are not unique to private companies. The fundamental issues to us are:

- The relevancy of financial statement information to users;
- The growing complexity of accounting standards; and
- The increasing costs to preparers to comply with GAAP.

We believe that these concerns are shared by public and private company constituents alike. The key questions are whether separate accounting standards are the answer and whether there are better, more cost-effective solutions for private companies.

Are separate accounting standards the answer?

Separate standards for private companies would mean that a company's sources of capital would essentially determine the best way to report transactions because the accounting and financial reporting for private companies would be different. This would detract from a goal for effective financial reporting standards, which is to faithfully reflect the underlying economics of transactions. Fundamentally, the economics of a transaction should be accounted for in the same manner by all companies and we believe those economics do not differ based on the size of a company, its status as a private entity, or its sources of capital. Thus, we do not subscribe to the view that the economics of transactions should be viewed or reported differently depending on the source of capital.

We support the objective of having one set of high-quality accounting standards for use by all companies for purposes of recognition and measurement -- acknowledging, pragmatically, that in very limited instances, the differing cost-benefit considerations for public and private companies



could be compelling enough to warrant a difference. We also acknowledge and support the benefit of allowing differences in transition, disclosure, and effective date requirements for private companies when appropriate.

The issues of increasing complexity in accounting standards and the related increasing costs to comply are common to public and private companies alike. Yet, complex accounting may be necessary to reflect the economics associated with complex transactions. To the extent possible, we advocate simplification of accounting standards for all preparers. If there are simpler alternatives to the current accounting standards that are reasonably faithful to the economics of a transaction, these alternatives should be made available not just to private companies, but to all companies. This would help to reduce everyone's costs and improve the general understanding of accounting by all.

At times, both public and private companies have questioned the relevancy of certain standards to the decision-making of their general purpose financial statement users. Frequently, these concerns relate to the same standards, and similar perspectives are often shared by public and private constituents. This further supports our view that needed improvement and changes should relate to all companies.

We also have several operational concerns over proposals to create separate accounting standards for private companies. We believe that there are risks in pursuing separate standards. Without strong sentiment from the user community for different general purpose accounting standards, the negative implications will outweigh the benefits. Our concerns are as follows:

- Separate standards are not helpful to users who enjoy the comparability that a single set of standards brings. Although users could undoubtedly adjust to separate standards, the substantial benefit of comparability across companies and industries that many others currently enjoy would be lost. This would be particularly acute as companies that utilize separate standards grew and became more like their public company counterparts in terms of size, revenues, and market share, but their financial reporting would make them look different.
- Implementing and maintaining a separate, high-quality set of standards would be a time and resource-intensive process. The financial reporting system in this country is already under significant stress as reporting entities face the challenges of adopting multiple new accounting pronouncements expected to be issued by the FASB in the short term. Adding separate accounting standards for private companies into that mix would put further strain on users, preparers, auditors, regulatory bodies and the educational system. For example, users would incur substantial costs to learn the new standards and revise their systems for analyzing data. Those users with both public and private company interests would not only need to keep current on two sets of standards, but would also incur substantial ongoing costs to maintain dual systems and processes. Our education systems would be charged with providing instruction on multiple sets of standards. The costs associated with meeting this education challenge could be significant. Colleges and universities would need to prepare and maintain dual curriculum. This would occur at a time when there are already significant concerns about the aging population of accounting faculty and the need for curriculums to change to reflect international accounting standards. Further, having two curriculums could mean that accounting students would have to choose early in their academic careers which curriculum



they wish to study. By choosing one over the other, they could effectively be limiting their long-term career choices.

- The matter of funding the costs of a standard setter's development and ongoing maintenance of a separate set of standards would need to be addressed. Currently, most standard-setting funding in the U.S. comes from support fees charged to public companies. Private companies are not charged these fees. If separate standards for private companies were adopted, there would be incremental costs to fund their development and maintenance, and these costs would need to be borne in some other way, perhaps by private companies. If that were the case, the ability of private companies to have their own set of accounting and financial reporting standards would come at potentially a steep price. Whether that trade-off would be acceptable is at best unclear.
- The development of a framework, the adoption of rules, and the related education associated with developing separate standards would likely take several years with no assurance that the efforts will be successful. In the same timeframe it would take to develop and educate users, preparers and auditors on new standards, there will likely be greater clarity regarding convergence between U.S. and international standards. As this occurs and other alternatives present themselves, such as international standards for small and medium-sized entities, the need for separate standards for private companies could be viewed differently. Given that the success of a costly effort to establish separate standards for private companies would not be assured, a more measured approach at this time would be to see if convergence efforts which are already well underway and the ultimate change to international standards are successful. The resources that would otherwise be devoted to developing and maintaining separate private company standards could be devoted to simplifying and improving financial accounting and reporting standards for all companies, public and private alike.
- Separate standards may impair or prevent certain exit strategies that may otherwise be available to private company investors. A company that follows a separate set of standards may be challenged in maximizing investor value if it cannot timely comply with more rigorous accounting standards required by public companies should it be called upon to do so as part of its investors' exit strategy.
- Finally, separate standards would likely create separate pools of accounting resources, each having specialized talent and experience. This would limit the flow of accounting resources between public and private companies, and would not maximize the opportunities for the individuals or their employers.

Alternatives to general purpose financial reporting

We agree that often there is a disconnect between the extensive information contained in general purpose financial statements and the narrower information needs of certain users of private company financial statements. General purpose financial statements are designed to assist a broad base of users in their decision making. The distribution of private company financial statements is often limited and, in many cases, private company financial statement users have an ability to request information that public company investors do not. Although users often gain comfort from audited general purpose financial statements, the question is whether such financial



statements are necessary in many instances. We believe that a more cost-effective solution is the use of limited-distribution, special-purpose reporting that reduces preparer costs and better fits the needs of users of private company reporting in situations where this is possible. Private companies could work with the users of their financial statements to agree upon alternative forms of reporting. This effort may be worthwhile if it results in more relevant reporting while reducing preparation costs.

* * *

In conclusion, we are supportive of the goal of the Panel to further debate financial reporting for private companies. However, we continue to support a single set of high-quality accounting standards for use by all companies for general purpose financial reporting. We acknowledge that in certain instances, the costs for private companies to comply with specific U.S. accounting requirements may not justify the benefits that doing so creates for users of private company financial statements. However, any initiatives to create separate standards should be carefully measured against the costs and risks that exist in doing so. In lieu of creating separate standards, we believe that alternative forms of financial reporting can be negotiated that can satisfy the unique needs of many private company financial statement users. Our responses to the specific questions posed for public comment are included in Appendix A.

If you have any questions regarding our comments, please contact Dave Kaplan at (973) 236-7219 or William Schramm at (973) 236-4586.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

Appendix A - Responses to Specific Questions



Appendix A - Responses to Specific Questions:

Blue Ribbon Panel Questions for Public Comment

1. How would you primarily categorize your company (or if a trade organization your members) as it relates to private company GAAP financial statements?

We are a professional services firm and serve as an independent auditor for both public and private companies.

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.

While we do use general purpose financial statements to manage certain aspects of our business relationships, we would not categorize ourselves as "users" in the manner which we believe the Panel intends for this question. Accordingly, we have omitted a response.

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.

Not applicable

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.

b) Are those issues or concerns confined to one or more specific standards, or are they more systemic?

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

Broadly speaking, U.S. accounting standards have become increasingly complex for both public and private companies over the past few decades, to the point where many preparers, public and private, struggle to stay current with the volume of newly-issued standards and how they should be applied. We believe that reducing the complexity of financial accounting and reporting standards for all constituents will address many of the concerns of preparers and users of private company financial reporting information, while preserving the integrity, value, and comparability of general purpose financial reporting for all users of that information.



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.

We believe that input from private company constituents is important to the standard-setting process and that enhancements should be made to ensure the needs of private company users are met.

Regarding short-term actions, we note that the FASB recently formalized enhanced due process procedures that would require a consideration of cost-benefits for private companies in all FASB projects. We believe that additional actions should also be taken, such as increasing the degree of Foundation oversight to ensure that complexity concerns for all companies and other private company concerns are addressed. The Foundation should also perform periodic reviews of the enhancements to ensure they are operating effectively. We also believe that the FASB could make better use of, and develop a stronger working relationship with, its Private Company Financial Reporting Committee. Lastly, we would encourage private companies to become more active in the standard setting process and offer specific recommendations to the FASB that can help the FASB understand the issues from their perspective and the solutions they believe are viable within the existing conceptual framework.

Regarding long-term actions, we believe that ongoing and planned efforts to converge U.S. and international accounting using a more principles-based approach is a positive initiative in light of the breadth of complex rules that currently exist in the U.S.

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?

If public companies in the U.S. are required to adopt international standards, we believe that the creation of a separate set of standards for private companies in the U.S. would create greater divergence between U.S. private company reporting and U.S. and international public company reporting. It would also create greater complexity. Financial statement users, investors, educators and students would need to learn and understand multiple sets of accounting principles. If public companies in the U.S. ultimately adopt international standards, we believe that private companies may find international standards for small and medium-sized entities to be an attractive alternative.

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

Please see the commentary provided in our cover letter.

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

Please see the commentary provided in our cover letter.



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

The views expressed in our responses to these Questions and in the cover letter represent the views of the U.S. Firm of PricewaterhouseCoopers.