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COMMENTARY

By Edwin J. Kliegman, CPA

This is in response to the Financial Foundation (FAF) request for comments on ‘Private Company Decision Making Framework. A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies’ which was reported in *The Trusted Professional* issue of September 2012.

The FAF is recommending that the PCC consider the characteristics that differentiate the needs of private company financial statement users from those of public companies.

That seems reasonable for a good starting point.

But Mark Ellis, a member of the CFO Committee who also sits on the FASB’s Small Business Advisory Committee states, “Relevance has to be the key driver here, but again with the understanding that GAAP today is good. It (just) needs some tweaks to remove (that which is) needed in a public company (but) is not valuable to the distinctively different needs of the private company user.”

The PCC will be reviewing and setting standards or modifications necessary to address the needs of users of private company financial statements that are in the class of private companies that “have little interest in raising capital from the public”, are not publicly traded, but are not really small business.

There is no doubt that those “middle market” businesses need relief from the current standards and modifications of U. S. generally accepted accounting principles (GAAP) and must be at the top of the PCC charts.

Perhaps “tweaking” will suffice for those companies

The PCC will serve as the voice of “millions of privately held companies during the standard setting process” that are below the class of private companies that “have little interest in raising capital from the public”, and are not publicly traded.

Stephan Clayman, CPA, in the August 2012 issue of *Accounting Today*, indicates that his firm services “more than 6,000 audit clients, nearly 90% of which are private companies.”

And therein lies the problem!

These firms are in the class of private companies that “have little interest in raising capital from the public”, are not publicly traded, **but are not really small business.**

There seems to be little consideration or understanding of *Bill's Plumbing and Heating* or *The Side Street Food Market*. These are the small businesses (private companies) that are the forgotten people of the standard setters. There are millions of these entrepreneurs in the United States who, when in need of financing are plagued by the same requirements that the public companies must follow.

The cost of auditing this type of small business is prohibitive and many CPAs who used to do audits of these firms have discontinued that body of work. At best, they now do compilations for their clients - which are not looked upon favorably by credit grantors.

The rules and regulations of GAAP usually have little bearing and meaning to the small business owner and should be recognized as unwarranted by credit grantors. To continue to burden them with meaningless rules and regulations is discrimination of the worst kind.

The AICPA and the regulatory agencies seem to have little or no understanding of these "forgotten businesses". The institute voices concern for their plight but takes no action to remedy the situation.. (I hope because they do not really understand the business).

And, of course, there is the cost to promote and publicize any new regulations. It took a long time and a tidy sum of dollars to get bankers and other credit grantors to accept the differences between audit, review and compilation and it is somewhat understandable that the AICPA would not relish the repeat of the process.

But in fairness and an effort to open credit lines to the "Mom and Pop" businesses there must be a revision of standards to help these organizations. Devising or "tweaking" regulations for the "middle market" business organizations would not suffice for the small businesses of the nation. They deserve and must have rules and guidelines **specifically** devised for small business, not a warmed over, somewhat reduced version of the regs that will apply to the larger ("mid-sized") private companies.

It would be advisable, even at this late date, to add some CPAs, who actively deal with these small businesses, to the roster of the PCC. There are CPA organizations such as the National Conference of CPA Practitioners (NCCPAP) whose members service small business and really understand their requirements. They could be of great help in bringing this specific point of view to the PCC.

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Edwin J. Kliegman, CPA, is the founder of Marcum & Kliegman, (now Marcum LLP), a Past President of the National Conference of CPA Practitioners, founder of the Nassau/Suffolk Chapter of NCCPAP, former chairman of the NYSSCPA Small Practice Management Committee and the Furtherance Committee