



The Association of
Accountants and
Financial Professionals
in Business

June 19, 2013

Financial Accounting Standards Board
Technical Director
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2013-250

Dear Ms. Cosper:

The Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its view on the FASB and the PCC's proposed guidance, Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies.

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Services and others. Information on the committee can be found at http://www.imanet.org/about_ima/advocacy_activity/small_business_financial_and_regulatory_affairs_co.aspx.

As noted in the letters dated December 22, 2011 and November 8, 2012 we believe there should be one set of Generally Accepted Accounting Principles (GAAP) and all companies should follow these principles. All companies should follow the same rules for measurement, recognition, and presentation. The needs of the financial statement users should drive the guidance for areas beyond measurement, recognition, and presentation. For example, public companies have additional requirements to meet the needs of their users and regulators. We identify these additional requirements as the "+" in GAAP.

Private companies that are not required by their users or regulators to produce these additional requirements are exempt from these additional requirements. We believe this "GAAP +" approach will lead to financial statements that are comparable, meet the needs of both public and private company financial statement users and, provide a scalable solution.

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Our suggested approach to accounting standards is similar to the IASB's approach. In their model, a simple, self-contained framework is available for preparers based upon the size of the entity. Should the needs become more complex than the principles contained within their framework, then these companies need to apply full IFRS for that single issue. A micro company would have a very simple, manageable set of standards to work with and apply full GAAP on more complex issues.

Conversely, the current FASB approach to simple, small or private company accounting is to require 1) the broadest base of guidance, 2) the largest drain on accounting resources and 3) the greatest cost to develop appropriate guidance. Such an approach seems counter intuitive to us and to the discussions of the Significant Differential Factors in the proposed guidance.

Our responses to the questions included in the proposed guidance can be found in the attached appendix. We appreciate the consideration of these comments. We are available to discuss our views at your convenience.

Respectfully,

A handwritten signature in blue ink, appearing to read "J. Exline", with a long horizontal flourish extending to the right.

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Appendix

Question 1

Please describe the individual or organization responding to this Invitation to Comment.

While the SBFRC represents a constituency within our membership, IMA's leadership has been involved in this process for many years. We have had members on the FASB's PCFRC, on the Blue Ribbon Panel, have prepared and submitted comment letters at each stage and participated in the public outreach round table discussions leading to the formation of the Private Company Council (PCC). The SBFRC's current members include preparers in manufacturing and service industries, mostly private but some public filers, a few members in public accounting and a small number in academia.

Question 2

Do you agree that this guide is based on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.

The staff has identified and focused on the appropriate factors for private companies. However, members of the SBFRC representing public companies and the IMA's Financial Reporting Committee believe that many of these factors are equally applicable to public companies and should be considered by the FASB for all companies (especially smaller public companies that meet many of the Significant Differential Factors).

Paragraphs DF12 and DF13 are very important to small and medium private companies. Not only would a deferred implementation date allow sufficient time for private companies and their accountants to receive proper notification and training on new guidance, it will also allow proper time to effectively implement the new guidance.

Many of the concerns of private companies can be mitigated as long as the disclosures are simplified for private companies. Therefore, we do not agree with the recommendation in paragraph 2.9 which recommended that the Board and the PCC also should consider whether private companies should provide additional disclosures beyond those required by public companies. Again, we would like to stress that, all companies should follow the same rules for measurement, recognition, and presentation. The needs of the financial statement users should drive guidance for disclosure areas. Disclosures are particularly onerous and costly for small private companies and therefore it is an area that should be driven by the needs of those financial statement users.



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Question 3

Overall, do you agree that this guide would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If it does not, what improvements can be made to achieve those objectives?

We believe that such a framework could be used for all companies to ensure the cost effectiveness of financial reporting as a whole. We believe that if additional information, analysis or metrics beyond those prepared by management to effectively operate the enterprise are being requested, then it is more along the lines of compliance and should pass the test of cost benefit, that additional information should only be included in supplemental disclosures, and not result in a change in recognition, measurement or reporting (display).

Question 4

With respect to industry-specific guidance:

a. Do you agree that this guide appropriately considers industry-specific accounting guidance for private companies? That is, should private companies follow the same industry-specific guidance that public companies are required to follow in instances in which the Board and the PCC determine that the guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?

b. Do you think factors other than user relevance, such as cost and complexity, should be considered when the Board and the PCC are determining whether or not to provide alternatives within industry-specific guidance?

c. Do you think that industry-specific accounting considerations should be different between (i) recognition and measurement and (ii) disclosure?

Generally, as users, we would expect to see similar presentations of industry-specific guidance for recognition and measurement; therefore, we agree it is necessary that private companies apply the same general industry-specific guidance as public companies.

This is clearly a case where the “devil is in the details”. Unless specifically excluded, industry-specific accounting guidance in Topics 905 through 995 of the FASB Accounting Standards Codification should apply to private companies.



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Question 5

Do the different sections of this guide 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 section appropriately describe the red-flag approach often used by users when reviewing private company financial statements (see paragraphs BC45 and BC46)? If not, why?

The overall majority of our committee felt strongly that users' access to management and preparers was not only a legal separator of public and private companies but an operative one as well. However, there were examples where outside investors or auditors of nonpublic companies were not given access, but were stonewalled in their requests for information to determine the liquidity and solvency of the company. This apparent conflict makes it very difficult to present a presumption regarding the factors unique to private companies. We conclude that there may be situations where user access may be impaired and, therefore, there should be no presumption of access. We feel that there is enough information given to appropriately guide the PCC in its determination as to what users often consider red-flags when reviewing private company financial statements.

Question 6

Paragraph 1.5 includes the following questions for the Board and the PCC to consider in the recognition and measurement area of the guide:

1.5(e) Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?

1.5(h) Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?

1.5(i) Is the lag between the year-end reporting date and the date financial statements are issued and made available to users likely to significantly dilute the relevance of the information resulting from the guidance?

Do you believe that the questions listed above are necessary for considering alternatives for private companies within recognition and measurement guidance? Or are the other questions in paragraph 1.5 sufficient for considering when alternative recognition and measurement guidance is appropriate for private companies within U.S. GAAP?

Yes, the staff has identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework.



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Question 7

Do you agree that a private company generally should be eligible to select the alternatives within recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement? Do you agree that, in certain circumstances, the Board and the PCC may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? If not, why?

Generally, the SBFRC believes it is imperative that there are one set of Generally Accepted Accounting Principles (GAAP) and that the needs of the financial statement user should drive the guidance for areas beyond measurement, recognition, and presentation. We believe that there should be a base articulation of measurement, recognition and presentation applicable for the smallest and simplest of entities. From that base, as entities become more complex and the needs of the users (including management) become more detailed, then so does the resulting complexity of the accounting and reporting. It is our belief that it is much more difficult to begin with a complex set of GAAP rules and then to apply “exemptions” for private companies.

Based on this approach, private companies should be eligible to select the alternatives within GAAP recognition or measurement guidance that it deems appropriate to apply without being required to apply all alternatives available to private companies within recognition and measurement.

To link eligibility for application of alternatives within recognition or measurement in one area to the application in another area should be determined by GAAP. If necessary, the Board and PCC may seek to clarify these links.