January 3, 2012

Board of Trustees  
Financial Accounting Foundation  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: *Plan to Establish the Private Company Standards Improvement Council*

Dear Trustees:

Mayer Hoffman McCann, P.C. (MHM) welcomes the opportunity to comment on the Financial Accounting Foundation’s (FAF) *Plan to Establish the Private Company Standards Improvement Council* (the Plan).

MHM believes that a separate set of accounting standards incorporating exceptions or modifications to nongovernmental US Generally Accepted Accounting Standards (US GAAP) for private companies is currently warranted and needed. We appreciate the efforts of the FAF, the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy in establishing the Blue Ribbon Panel (BRP) to examine the necessity of differential standards stemming from the distinctions in public and private company environments. We believe the results of the BRPs deliberations demonstrate that the users of private company financial statements have significantly different needs than the users of public company financial statements. We also recognize that virtually all of the respondents to this issue, along with the BRP, the FAF and the FASB have reached that same conclusion.

At this point the primary question seems to be how to best implement a structure and plan to accomplish the objective of differential reporting for private companies. The most contentious issue appears to be whether the FAF’s proposed Private Company Standards Improvement Council (PCSIC), whose decisions would be subject to ratification by the FASB or an alternative autonomous standard setting board, would be the best body to accomplish this objective.

*Conceptual Framework vs. Decision Making Framework for Private Companies Should Be the Primary Question*

MHM has been disappointed that the FASB and the International Accounting Standards Board (IASB) have not developed a single conceptual framework to guide the convergence of US and International standards. Likewise, we are concerned that the project to develop a structure to establish differential reporting standards for private companies appears to be progressing faster than the project to develop a Decision-Making Framework for Private Companies (FPC). MHM believes an informed decision as to which body will establish accounting standards applicable to private companies should only be made with a thorough understanding of
the types and magnitude of the differences from US GAAP that may be acceptable under the FPC. We further believe the FPC should be a robust and rigorous framework responsive only to the needs of the users of private company financial statements. It should not allow differences based solely on perceived difficulties or costs to preparers and their external accountants.

**Single Set of US Accounting Standards vs. US Accounting Standards Applicable Only to Private Companies**

MHM understands that the primary concerns about the complexity, relevance and cost-benefit of US GAAP for private companies may currently involve a small group of standards. However, in considering the following issues which we have recognized as primary causes of concern, we note that the desired result for private companies would likely result in significant recognition and measurement differences between the GAAP applicable to private companies and US GAAP:

- ASC 480-10 (FAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity – the provisions that would have eliminated the equity of many private companies have been indefinitely deferred for private companies.
- ASC 810-10 (FAS 167), Consolidation of Variable Interest Entities – requires consolidation of many entities that are objectionable to many private companies and considered unnecessary by many of their users.
- ASC 740-10 (FIN 48), Accounting for Uncertainty in Income Taxes – imposes recognition and disclosure requirements that are objectionable to many companies as well as the users of private company financial statements.
- The recent movement toward fair value in recognizing and measuring many assets and liabilities is of questionable benefit in relation to the cost to many private companies.
- Additionally, many private companies object to the proposed recognition of assets and liabilities as a replacement to current operating leases.

MHM recognizes that there have long been appropriately accepted differences in disclosure and effective dates for private companies. We recognize that some practical measurement exemptions, such as is currently proposed in the financial instrument project may also be appropriate. However, we believe that it is not appropriate under US GAAP for an identical transaction to result in a liability for a public company and equity for a private company. We also do not consider it appropriate under US GAAP for an identical interest in an entity to result in consolidation of that entity for a public company and no consolidation for a private company. Conceptually, we do not believe an identical transaction can, or should, be recognized and measured differently within the same conceptual framework, and thus, the importance of the FPC.

While we do not believe such recognition and measurement differences are appropriate within one set of standards such as US GAAP, we do believe they are necessary to obtain the desired results proposed by the BRP. We understand that a desire to maintain a single set of US accounting standards was a primary factor in the FAF's decision to establish the PCSIC; however, we believe the maintenance of a single set of GAAP may well be either the most counterproductive or the most confusing aspect of the proposal. Allowing the types of
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differences noted above within US GAAP would denigrate the standards and create confusion for the users of both public and private company financial statements. We believe these differences should be provided under an accounting framework other than US GAAP.

The Auditing Standards Board of the AICPA (ASB) has recently completed a project which included reconsideration and rewording of all US Generally Accepted Auditing Stancards (US GAAS) to clarify and converge the US standards with the International Standards on Auditing. As part of this project the ASB replaced the term “US GAAP” with the term “applicable financial reporting framework” within the requirements of US GAAS which are applicable to private companies within the United States. MHM believes “US GAAP for Private Entities” could be an applicable financial reporting framework consistent with “IFRS for SMEs” which currently qualifies as an applicable financial reporting framework.

Applicability of US GAAP for Private Entities

A separate issue that MHM does not believe has been adequately addressed to date is the types of entities to which the new accounting framework would apply. MHM believes it would not be in the public interest to allow all entities not registered with the SEC to issue general purpose financial statements under an accounting framework other than US GAAP. We feel that there are many non-publicly traded entities, such as certain public interest entities, that have a significant impact on our financial markets and the distribution of capital in our markets for which the requirements of the users of the financial statements will more closely align with US GAAP than the proposed “US GAAP for Private Entities” (or its equivalent). The applicability and appropriate application of each set of standards should be a careful consideration.

MHM has noted that certain auditing standard setting bodies have recognized the different needs of users and have established standards that differ for public company audits, governmental audits and other audits. As a result, the users are in a position to dictate the standards that the auditor must follow, such as Public Company Accounting Oversight Board Auditing Standards or Government Auditing Standards. We believe a similar approach could be developed for users of financial statements to dictate the applicable financial reporting framework, such as US GAAP or “US GAAP for Private Entities.” For example, a regional or community bank might accept “US GAAP for Private Entities” for a single location retailer with a small working capital line of credit, whereas the same bank might require US GAAP for a company contemplating a substantial financing of multinational operations. Additionally, the Securities and Exchange Commission (SEC) would need to determine whether “US GAAP for Private Entities” would be acceptable for financial statements to be included in private placement offerings intended to be exempt from registration under the Securities Act of 1933. If the SEC did accept “US GAAP for Private Entities” in private placements, investment banks might still require financial statements prepared under US GAAP for private placements with which they may be associated.

Under this proposal, an entity that would qualify to issue general purpose financial statements prepared under “US GAAP for Private Entities” could issue those financial statements to its users that would accept or require such financial statements. However, if a specific user would only accept financial statements prepared in accordance with US GAAP, the entity would also be able to satisfy the requirements of that user. A qualifying entity would also be able to issue general purpose financial statements prepared under US GAAP for the
majority of its users and only issue financial statements prepared under “US GAAP for Private Entities” to any users that might require those financial statements. We do not; however, believe that qualifying entities should be able to switch back and forth between the different frameworks in order to produce the most favorable current results. A qualifying entity should adopt the framework most appropriate for the majority of its users and only deviate from that framework in response to specific requirements of users.

Structure to Establish “US GAAP for Private Entities”

It seems that if the appropriate accounting framework is adopted, the decision as to the body to establish and maintain that framework may become more apparent. Once again, MHM believes the FASB’s project to establish the FPC is critical. We assume that the FPC will provide for the types of significant recognition and measurement differences we have noted above, which we believe are necessary to obtain the desired results. If the FPC does provide for the necessary recognition and measurement differences, we do not believe those types of differences should be acceptable in US GAAP, but should be included in an alternative appropriate accounting framework such as “US GAAP for Private Entities.”

MHM feels strongly that any new standard setter for “US GAAP for Private Entities” should be under the oversight of the FAF as recommended by the BRP. We agree that an advisory group composed primarily of private company advocates and users, such as the PCSIC or even the Private Company Financial Reporting Committee, if reconstituted under the proposed structure for the PCSIC, may be beneficial to this process. However, we do not think such an advisory group is essential.

MHM does believe it is essential to:

1. develop the Decision-Making Framework for Private Companies;
2. determine whether significant recognition and measurement differences would be included within the FPC;
3. critically analyze whether the contemplated differences can be included in US GAAP as the applicable financial reporting framework or whether a new applicable financial reporting framework such as “US GAAP for Private Entities” is necessary;
4. determine the types of entities that would qualify for the new applicable financial reporting framework, and then
5. determine the structure of the standard setter for the new applicable financial reporting framework.

Once the FPC is established, we believe FASB should be the primary standard setter for US GAAP, and have a strong voice in the standard setting for “US GAAP for Private Entities”. MHM has always had the utmost respect for the professionalism and dedication of the members of FASB. While there was a period of time that the FASB did not pay sufficient attention to the concerns and recommendations expressed by its Private Company Financial Reporting Committee, we have noted the recent increased commitment by the FASB to the needs of the users of private company financial statements. With the development of the FPC, a commitment by FASB to implement the differences embodied in the FPC and oversight by the FAF, we believe FASB could satisfy the needs of the users of private company as well as public company financial statements. However, we
recognize the substantial support for a separate standard setting board as the most effective structure to accomplish the objective of a differential accounting framework for private company financial statements.

As previously stated, MHM believes there is no reason, and that in fact it would be both counterproductive and confusing to maintain a single set of U.S. GAAP. We therefore believe there could be separate standard setters to establish the two different accounting frameworks. MHM recognizes and respects the FASB's role of establishing high quality accounting standards to protect the public interest of investors in the financial statements of public companies. We believe the FASB should continue to primarily concentrate on public companies as their most important priority. If a separate board devoted to the needs of the users of private company financial statements is established, MHM believes it is essential that both boards be under the oversight of the FAF.

If the FAF proceeds with its proposal for the PCSIC, MHM does not believe it is necessary for the FASB to have ratification rights over the PCSIC. We think it may appropriate for the FASB to have veto rights over the decisions of the PCSIC, but only with a similar super-majority vote that would be required for the PCSIC to enact changes to the standards originally issued by the FASB. We do believe it is necessary for both boards to work closely together. We think it may be beneficial for the FASB and the PCS/C to have one or more common members. However, we do not think it necessary or appropriate for a FASB member to chair the PCSIC. Additionally, we feel that the proposed size of the PCSIC (a chair plus 11 to 15 members) is too large to be effective or productive. We would limit the size to 7 or a maximum of 9 including the chair. We also think it would be beneficial for the FASB and the PCSIC to periodically have joint meetings, but that the PCSIC should also be able to meet without the participation of the full FASB.

MHM appreciates the opportunity to provide comments on the Plan and hope they will be considered as the FAF works toward improving the standard-setting process for private companies. Please contact Ernest F. Baugh, Jr. (423-870-0511) if you have any questions or would like additional information regarding our thoughts.

Mayer Hoffman McCann P.C.