Private Company Plan  
Financial Accounting Foundation  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Plan to Establish the Private Company Standards Improvement Council

This comment letter represents my own professional views and the views of all of the partners and professional staff of our organization. In addition, it represents the unanimous position of all of our firm’s audit, review and compilation clients.

Dear Financial Accounting Foundation:

Despite the strong recommendations of the Blue Ribbon Panel, and upon receiving support for those recommendations from many constituents, FAF’s proposal does not contemplate the creation of an authoritative independent standard setter for private companies. The new Private Company Standards Improvement Council, as proposed, does not solve the systemic problems that exist with standard setting for private companies because it requires the Financial Accounting Standards Board to ratify any suggested modifications. I urge you to establish a new independent standard-setting body whose decisions would not be subject to the FASB approval process. It is the best way to make meaningful financial reporting changes for private companies a reality.

I have been a Certified Public Accountant and have worked in a small, local firm for over thirty years. It is my professional opinion that the current trajectory of the FASB has and will continue to inevitably exclude many of our smaller clients from being able to affordably comply with requirements and standards that simply should not apply to them. Our firm first seriously started noticing the effect on many of our smaller nonprofit clients years ago. And it is increasingly negatively affecting our larger clients. The required complexity of many of the new requirements is simply beyond their personnel’s and software’s abilities. Not every entity or its financial statement users have a need to be subject to the same requirements as a publicly held entity. Furthermore, the users of their financial statements have no use for such inappropriate disclosures and often do not understand the constant changes in the standards that are being continually made.

We question both the ability and experience of the FAF as it relates to Private Companies. I can absolutely say that were there an alternative to FASB most of our clients would have chosen to abandon FASB long ago. What started as a gold standard has evolved into an incomprehensible standard. None of our clients have the least interest in merging US GAAP with IFRS. It does not represent anything to them but an expensive waste of time and money that will ultimately provide absolutely no increase in usable information to them or the users of their financial statements.
We increasingly feel that the needs and circumstances of Private Companies are not being adequately considered in the deliberative processes currently used by FAF. We also feel that FASB is staffed by individuals with vested interests aligned with the very largest accounting firms and Public Companies, which funds their activities. Some of the more outrageous proposals recently made by FASB easily highlight this point. Proposals such as requiring capitalization of all leases could play havoc with Private Companies' existing loan covenants with smaller financial institutions that may not have the personnel to evaluate the impact such a fundamental change in the accounting presentation would make.

As stated earlier this is not a passing problem, but one that is increasingly causing significant hardships on Private Companies. I feel that in particular, the headlong, dash into IFRS has created the straw that has broken both Private Companies and the professionals that work with them any allegiance to a common unified set of accounting principles that is manifestly not designed with them even in mind. Even when the FASB carves out some exception to Private Companies, it still has to implement useless accounting changes. It seems that even the SEC is having mixed feelings pertaining to the timing, nature, implementation and consequences of a merger with IFRS.

To remain relevant to our clients and their financial statement users we must be able to justify the requirements that we set. And to the extremely large number of Private Companies this is no longer possible with the existing situation. Just because the FAF has the current monopoly on standard setting does not give it the right to abuse the vast majority of its users.

Very truly yours,

Frank VanHoy
Press Release

Statement from Barry Melancon, AICPA President and CEO, and Paul Stahlin, AICPA Chair, Addressing FAF’s Failure to Create an Independent Standard Setting Board for Private Company Financial Reporting
Published October 04, 2011

NEW YORK (Oct. 4) - We are profoundly disappointed that the Financial Accounting Foundation (FAF) is not proposing to create a new independent board to set differences in U.S. GAAP standards, where appropriate, for privately held companies. This was the cornerstone of the Blue Ribbon Panel on Standard Setting for Private Companies' report. The Panel consisted of a cross-section of leaders from financial reporting constituencies, including lenders, investors, owners, preparers and public accountants.

“Three thousand private company constituents and a majority of the state CPA societies, representing more than a quarter million CPAs, have spoken. They want a separate independent standard setting board and they have sent letters to FAF asking for change,” said Barry Melancon, American Institute of Certified Public Accountants president and CEO. “Over the years, FASB’s main focus has understandably been on the needs of constituents of publicly traded companies. The pent up frustration we are witnessing by the private company constituency is a direct result of that public company focus and not seeing that differences can be and are appropriate for private companies and their financial statement users.”

For many years, the pleas of private companies to have differences in standards for private companies that are more cost effective and relevant for their users have too often been ignored. We understand and appreciate FASB’s need to focus on public company issues and emerging capital market concerns. And as we move forward, FASB’s focus will need to continue to be on the public market and on the convergence of U.S. Standards with IFRS, which themselves are focused on public companies. This clearly underscores the need for a separate independent board focused solely on the right standards for private company GAAP.

In essence the Panel’s report stated: The supermajority view of the BRP members is that the current FASB and even a restructured FASB cannot produce the needed exceptions and modifications to GAAP for private company financial reporting. Those BRP members believe that throughout its history, the FASB has been very heavily geared, in its composition and its processes, toward public companies. As
a result, GAAP exceptions and modifications in recognition, measurement and presentation have been too rare and extremely difficult to achieve. Members of a board with authority to set accounting standards for private companies must possess the perspective of those stakeholders, and the FASB cannot be sufficiently restructured or possess enough of the essential private company representation needed to set GAAP differences for private companies.

"Unfortunately, FAF's proposal has failed to accept the views of the many voices of the private company constituency asking for a separate board. We don't think the concerns of smaller private companies can be fully appreciated until there is an independent board dedicated and focused solely on the needs of private companies. Therefore, we will continue to ask our members and others who support more relevant, more cost beneficial standards for private companies to make their voices heard loud and clear that the best answer is an independent private company board," commented Paul Staehlin, AICPA chair.

The Blue Ribbon Panel and its diverse membership recommended the independent board for a reason. Without the addition of a separate board, the goal of true private company financial reporting differences will not be consistently achieved. Unfortunately now nine months after the Panel issued its report and after receiving more than 3,000 letters with 99 percent support for the Panel's recommendations, the FAF has proposed a solution that continues to miss the mark.