Board of Trustees
Financial Accounting Foundation
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Dear Financial Accounting Foundation:

You are currently in the process of making a decision that will affect the accounting profession and the U.S. business community in a profound and climactic way. Will non-public companies have the ability to communicate with users of their financial statements in a more meaningful, less costly manner?

For years - and I've been in this profession for 44 years - we have watched accounting standards become more complex and less relevant to non-public entities. For a good number of my 44 years, the concept of "little GAAP" has floated around like a kite. It would only go so far, with its distance a function of the length of string to which it was attached. Ultimately, the person flying the kite would become tired of the process and go home, and the kite would either disappear or be picked up and taken back home with the thought that it can be flown again in the future.

But today, we have a chance to convert that kite to a satellite - send it off into a place where it can endlessly serve us and provide cost-effective results and benefits. That chance is embodied in the recommendations made by the Blue Ribbon Panel on Private Company Financial Reporting (the Panel) regarding differential standards and the creation of a separate standard-setting entity for private companies.

It is clear, even to those standard setters who are on the Financial Accounting Standards Board (FASB), that the current process and the resulting standards do not effectively take into consideration the needs of non-public entities. Users of these financial statements are, for the most part, different than those of publicly-held entities' financial statements. And the cost/benefit relationship associated with the preparation of financial statements meant for one set of users versus the other is dramatically different.

As an example, one of my clients has acquired a number of business entities over the past several years. Each year, we go through the process of trying to determine if goodwill has become impaired. This is a lengthy process and involves a number of subjective assumptions, each of which, if tweaked only slightly, can be the difference between moving from step 1 to the very costly step 2. Just getting to step 1 in the analysis is time consuming, made more so by having to determine the appropriate reporting unit. Now, if this process led to a more informative set of financial statements, I and my client might understand the need for it. But NO ONE cares about goodwill. The only external user is their bank, who immediately subtracts goodwill from their analysis. The client of course does not consider goodwill of any value. So no one cares except for the CPA who has to justify to the client the need to charge for the time necessary to review the analysis, and the client who has to devote a number of hours to the process and pay our fees.

And what's really great about this process concerning goodwill - though it's true for many of the complex standards - is that it doesn't matter if you are auditing, reviewing, or compiling the financial statements. The client must do essentially the same work to support their decision regarding impairment notwithstanding the level of assurance being given. The fee and client effort may be somewhat smaller in a review or compilation, but probably higher as a percentage in relationship to the total fee.

The question floating around seems to be, "should we have two separate sets of standards." The appropriate question is, "why don't we have two separate sets of standards." The vast majority of users fall asleep before they get through all the disclosures now required - which means they can't focus on the really useful information. I have seen small entities with relatively simple accounting issues have five pages of disclosures, with three of them directed towards a discussion of the entity's defined benefit pension plan. We need to have a set of standards that allows for meaningful analysis of why a company has been, and will in the future be profitable and generate sufficient cash flows. The current standards require most users to have to separate the wheat from the chaff.

Now that we have our chance to actually make financial statements of non-public entities useful again, we can't let this opportunity fail. But we have to define success and failure. In my opinion, success is a living, breathing structure that is built to evaluate each standard in light of its impact on the community that is involved in the financial statement process. That includes issuers, users and CPAs who provide assurance over those statements. Failure would be to do nothing, or to create a structure under the auspices of the FASB.

Why not the FASB? Because their appropriate sphere of interest and responsibility is public entities. It is not logical to believe that they can devote a tremendous level of energy and creativity to identifying that one standard that really nails the problem, and then find some way to back off of it for non-public entities. They would continually be trying to justify that users have different goals based solely on ownership structure. In fact, what will happen if the FASB is in charge of this operation is to effectively kill it, while giving it lip service. The FASB seems to be taking great pride in having added one member that has ties to the non-public segment. This is hardly a litmus test as to their concern for that segment. Please do not be fooled into believing the FASB wants an effective alternative set of standards. A new body must be set up under FAF, adequately funded, and having only one constituency - non-public entites.

The Panel's report was well-thought-out and well-researched, taking a year to complete, and gaining input from all types of users, preparers, and CPAs in public practice. Please do not ignore its conclusions or the underlying reasons.

Thank you.

Michael Pierce

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