

## Private Company Financial Reporting Committee

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

443-480-5800

e-mail: [judyodell@dmv.com](mailto:judyodell@dmv.com)



Judith H. O'Dell CPA CVA  
Chair

November 2, 2009

Mr. John J. Brennan  
Chairman  
Financial Accounting Foundation  
401 Merritt 7  
Norwalk, CT 06856

### **Re: Accounting Standards for Private Companies**

Dear Jack:

The Private Company Financial Reporting Committee (“PCFRC” or “Committee”) appreciates your request for input on the broad matter of the future of private company financial reporting. The pros and cons of possible models of that future have been discussed by Committee members over the last two years. Today, events and trends are occurring around the world and within the U.S. which have added considerable momentum to the work of the PCFRC in this area, and which have helped bring to light the importance of tackling the issue of private company accounting now. Those events and trends include:

- The issuance of the International Financial Reporting Standard for Small- and Medium-Sized Entities (“IFRS for SMEs”).
- Efforts underway in other countries addressing private company GAAP (such as in Canada, Australia, the U.K., and South Africa).
- Recent surveys of financial professionals in the U.S. that demonstrate a preference for differential accounting standards for private companies.
- The increasing number of complicated accounting standards, driven primarily by public company investor and analyst needs, which are often expensive to implement for private companies and provide no real benefit for the users of private company financial reporting.

Of particular importance is the issuance of IFRS for SMEs, inasmuch as that Standard can now be utilized in the U.S. by private companies. The PCFRC recently analyzed the content of IFRS for SMEs and the reasoning of the International Accounting Standards Board in developing separate standards for private enterprises. While this standard may not be the ideal solution for U.S.

private companies, it is a very attractive alternative in that it is self contained, clearly written, and is “GAAP.”

## **Recommendations**

Based upon its work, discussions, and consideration of the state of private company financial reporting in the U.S. and in light of the aforementioned events and trends, the PCFRC unanimously recommends that the FAF consider the issue of U.S. private company accounting in the context of the mission of the FASB. The Committee believes that a separate, stand-alone set of accounting standards for U.S. private companies tailored to the needs of the users of those statements is the preferred approach. However the Committee realizes there could be other major alternatives for private company accounting that should be explored. In establishing standards for private company financial reporting, the needs of financial statement users balanced against the costs of complying with the standards must be an overriding principle.

## **User Needs**

As recognized in the Basis for Conclusions for IFRS for SMEs (paragraph BC 45), “users of financial statements of SMEs may have less interest in some information in general purpose financial statements prepared in accordance with full IFRS than users of financial statements of entities whose securities are registered for trading in public securities markets or that otherwise have public accountability.” The PCFRC believes that the same situation holds true in the U.S. Generally, private companies have a narrower array of financial statement users compared to the broader and larger range that public companies have. Lenders, venture capitalists, and sureties are the primary external users of private company financial statements. Their financial information needs are mostly centered on short-term cash flows, liquidity, and EBITDA. Notably, these users, unlike their public company counterparts, often have easy access to a company’s management and to additional financial information beyond what is provided in the financial statements. Given the differences in the kinds of financial reporting users and their needs, it is clear that private company financial statements in many ways are intended to satisfy different informational needs than public company financial statements.

## **Cost/Benefit Considerations**

The benefits of financial information should outweigh the costs of providing that information. This was stated in the Basis for Conclusions for IFRS for SMEs (paragraph BC 46). Today, the accounting standards generating that financial information have become increasingly complicated and costly to implement. Aggravating the situation is the fact that a number of these standards are not useful or relevant in meeting the needs of the users of private company financial reporting. The private company sector is quite different from the public

company sector. There exists today an imbalance between the growing burden being shouldered by private companies in complying with U.S. accounting standards and the minimal benefit that a number of those standards provide to private company users.

### **Taking Charge of the Future**

In light of the events and trends occurring today, especially the issuance of IFRS for SMEs, the PCFRC believes that outside forces are already at work shaping the future of private company financial reporting in the U.S. In spite of dramatic recognition and measurement differences, both IFRS for SMEs and FASB standards are considered GAAP. Private company financial statement users are concerned about potential marketplace confusion. For the good of U.S. private company constituents and the accounting profession, the PCFRC believes that the FAF should take a leading role in ensuring the establishment of private company standards. In doing so, the FAF will be helping to shape the future of U.S. private company financial reporting in a manner that is in the best interests of U.S. private company constituents. The PCFRC appreciates the FAF's consideration of this recommendation and stands ready to play a significant role in its implementation, as needed. Please feel free to contact me if you have any questions or comments.

Sincerely,



Judith H. O'Dell  
Chair  
Private Company Financial Reporting Committee