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February 8, 2013

Mr. Billy Atkinson  
Chair  
Private Company Council  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: U.S. GAAP for Private Companies

Dear Mr. Atkinson:

I am writing you as Chair of The Accounting Principles and Auditing Standards Committee ("the Committee") of the California Society of Certified Public Accountants ("CalCPA") on behalf of the CalCPA. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee includes 49 members, of whom 53 percent are from local or regional firms, 27 percent are from large multi-office firms, 10 percent are sole practitioners in public practice, 8 percent are in academia and 2 percent are in international firms.

The Committee has long believed that there is a need for a separate U.S. GAAP for private companies. We have closely followed the creation of the Private Company Council ("PCC") as well as the development of International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs), and the AICPA Proposed Financial Reporting Framework for Small and Medium-Sized Entities, a non-GAAP alternative framework ("FRF for SMEs"). The Committee believes that the recognition, measurement and disclosure provisions of GAAP (i.e., standard U.S. GAAP), which to a large extent are driven by the needs related to public entities, are too complex and lengthy to meet the needs of preparers and users of financial statements of most private entities.

The Committee is concerned about the pace of the PCC, and the failure of the PCC to make basic decisions on what it is trying to achieve. The Committee recognizes the need for a deliberative approach. But, the Committee believes that there are several basic questions that need to be addressed before the PCC addresses its technical agenda:

- The PCC needs to reach a conclusion on whether U.S. GAAP for Private Companies will be a comprehensive financial reporting framework.
- The PCC needs to decide whether differential, presumably lesser, disclosures will be part of U.S. GAAP for Private Companies.
- The PCC needs to decide whether there will be different recognition and measurement criteria in U.S. GAAP for Private Companies than those in GAAP.
- The PCC then needs to decide whether, if a private company adopts U.S. GAAP for Private Companies, it must adopt all provisions (the "all-or-nothing" approach).

In addressing these questions, the PCC should consider the purpose and objective of financial statements for private companies. For example, should the financial statements include all financial information needed by potential users or only basic information that may be supplemented outside the financial statements in response to questions from users, such as lenders? Also, is comparability among entities important? If so, alternative recognition and measurement criteria should be limited, whereas if not, broader alternatives may be considered.

At its meeting on December 6, 2012, the PCC chose four technical topics for discussion at its next meeting. The Committee does not question its choice of those topics as they have been problematic for private companies. More importantly, they might provide a useful reference point for discussion of the basic questions above. Unless the PCC reaches conclusions on all of the above basic questions, the Committee does not believe the PCC can reach useful conclusions on the technical topics.

The Committee believes that if the PCC's U.S. GAAP for Private Companies project is to be successful, a positive answer to each of the basic questions above is necessary. A comprehensive approach is necessary to meet the needs of preparers and users, and anything less than an "all-or-nothing" approach will undermine the credibility and usefulness of a comprehensive framework. We view differential disclosures as a *sine qua non* of the project (presumably, disclosures exceeding a minimum would be permitted). The Committee believes differential recognition and measurement for certain transactions is critical to any ultimate acceptance of U.S. GAAP for Private Companies; complex recognition and measurement provisions of U.S. GAAP have been a major complaint of private companies. The Committee points out that the IASB, faced with similar considerations, adopted different recognition and measurement standards in IFRS for SMEs than those in IFRS.

The Committee recognizes the need for a deliberative process by the PCC. However, the Committee sees little benefit to redeliberating the provisions of existing GAAP. It has taken the FASB decades to debate and create existing GAAP, and redeliberation of the old issues and possibly new ones may take a long time. What the PCC needs to do is accept that U.S. GAAP for Private Companies will differ from existing GAAP, and set standards based on simplicity and adherence to fundamental accounting concepts, while at the same time recognizing that those standards may lack the theoretical polish of existing GAAP. Both IFRS for SMEs and the AICPA's FRF for SMEs seem to have done this; while the Committee does not agree with certain provisions of those frameworks, the approach in each could be a useful basis for the PCC's approach in setting U.S. GAAP for Private Companies.

Finally, the PCC needs to set a reasonable time frame for completing U.S. GAAP for Private Companies, and the Committee believes it should be a matter of no more than several years. The Committee points out that the groundbreaking IFRS for SMEs were created in about four years, and the AICPA's proposed FRF for SMEs, which was announced at about the same time as formation of the PCC, was released about six months after announcement of the project and a month before the PCC's first meeting. The Committee suggests that the PCC may find the approaches used by the IASB and the AICPA to be useful examples of how to achieve completion of U.S. GAAP for Private Companies in a reasonable time frame.



The Committee strongly supports the PCC's creation of U.S. GAAP for Private Companies, and would be glad to discuss its comments further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in cursive script that reads "Howard Sibel". The signature is written in dark ink and is positioned below the closing of the letter.

Howard Sibelman, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Certified Public Accountants

cc: Teresa S. Polley, President and CEO, Financial Accounting Federation