American Bankers Association
Building Success. Together.

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January 13, 2012

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

Via website submission: PrivateCompanyPlan@f-a-f.org

Re: Plan to Establish the Private Company Standards Improvement Council

To Whom It May Concern:

The American Bankers Association (ABA) appreciates the opportunity to comment on the *Plan to Establish the Private Company Standards Improvement Council* (the Plan). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2 million men and women. As a group, banks are one of the most significant users of financial statements, and the decisions by the Financial Accounting Foundations (FAF) have important implications to the banking industry.

Within the Plan, the Board of Trustees of the FAF proposes to establish a Private Company Standards Improvement Council (PCSIC) that will determine whether exceptions or modifications to nongovernmental US Generally Accepted Accounting Principles (GAAP) are required in order to address the needs of users of private company financial statements. Under the Plan, the PCSIC, consisting of 11 to 15 members from a broad array of stakeholder interests, would regularly review both existing GAAP and prospective changes to GAAP) and vote on possible exceptions or modifications for private companies. These exceptions and modifications would then be subject to a due process whereby the Financial Accounting Standards Board (FASB) would then vote to expose the proposed changes to the public, conduct outreach to obtain input from various stakeholders, and eventually vote to finalize any modification to GAAP. The Plan is intended to supersede a current Financial Accounting Foundation (FAF) structure that consists of different advisory groups that provide input into FASB (for example, the Private Company Financial Reporting Committee – PCFRC). The Plan was also proposed in response to various recommendations submitted in January 2011 by the Blue-Ribbon Panel on Standard Setting for Private Companies. One of the recommendations from the Blue-Ribbon Panel consisted of creating a new, separate, and authoritative standard-setting board that would operate under the oversight of the Board of Trustees of the FAF. In our view, the key factor in the success of any plan – whether performed by the PCSIC or a separate board – is the level of commitment demonstrated by the FAF to address complexity, relevance, and cost-benefit issues in financial reporting.

As both preparers and users of financial statements, bankers have been concerned about the increasing complexity of GAAP for a number of years. We acknowledge that commercial transactions have also become more complex over time, but the tension between general principles and specific rules also adds to the complexity. In some cases, principles are preferred by preparers; however, financial statement users also gain comfort in knowing that a reporting entity has appropriately and consistently applied the existing accounting standards. The comfort in specificity may require additional guidance subsequent to the issuance of a new standard, but the reward is better understanding of a client's financial statements by its lenders and other creditors. A further challenge is the burden of paperwork requirements for transactions that do not impact current or future cash flows and are otherwise never needed or used by users of financial statements.

As a result of these complexities and their obligatory burdens of proof, many small businesses are no longer able to independently prepare their own GAAP-compliant, audit-ready financial statements with an acceptable level of reliability. Third parties must often be hired to sort through the standards and provide significant assistance in this process. These complexity costs lead us to believe that FAF must lead the effort to simplify and streamline the standards, especially for small companies but also for larger companies. We encourage the FAF to improve this process for private companies, and look for opportunities to reduce complexity for all companies as you proceed.

Because banks have the ability to obtain information directly from customers, this access to management may allow for less complex accounting and disclosure requirements. For example, when a credit analyst has questions about a potential borrower's financial statements, the analyst can ask the borrower for more information without requiring extensive audit procedures to be performed on the data. The lending officer is typically able to engage the client in actual-to-budget reviews without the requirement for disclosure to external regulatory bodies, With this in mind, standards that require information and disclosure of accounting transactions with little relevance to the generation of cash flows rank high among bankers as the place to begin a review of GAAP for principles and disclosures unnecessary or too costly for application to private firms. We encourage the FAF to include banking institutions in its process for improving private company reporting. Although we understand the theory behind the International Accounting Standards Board's decision that it's International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) is not intended to apply to banks, we believe it is important to include banking institutions in the analysis and final standards both from the perspective of users and of preparers. Reducing complexity should be a key factor, and banking institutions should not be excluded from such improvements.

Current Commercial Banking Usage of Financial Statements

Financial information generally accepted by bankers today often includes tax returns and other financial statements and information compiled by the borrower. Bankers are generally also willing to accept audited financial statements with auditor qualifications, especially if the GAAP exceptions do not have an impact on current or future cash-flows. In fact, based on a survey conducted by the ABA of members of its Commercial Banking Committee (see appendix A for a summary and Appendix B for detailed results), tax returns are currently relied upon by these bankers over half of the time in making lending decisions, with bankers mainly requiring audited financial statements only for borrowers with larger credit exposures. It is not clear whether efforts to create separate private company accounting standards would result in a significant increase in audited financial statements, as only 13% of respondents feel that many private companies would voluntarily submit audited financial statements, with the same percentage expecting to require more audited financials from their borrowers for reasons other than credit exposure, e.g., industry outlook, management breadth and depth, demand for its products and services, etc. Nevertheless, if streamlining GAAP reduces the cost of audits, the outcome might be a more positive perception by preparer and user alike in the value added in an audit.

With these survey results in mind, ABA supports the efforts of the FAF to address this situation and, overall, supports the general Plan, as modified to address the issues noted below. The biggest concern of the survey respondents is that accounting standards are, in general, overly complex. Therefore, we believe that focusing on complexity for private companies may best increase the pace at which such complexity can be identified and analyzed. It is critical that the PCSIC consist of a broad range of stakeholders, including those from the banking industry.

Communication is Needed on Different Aspects of the Plan

While we support the general direction of the Plan, FAF must clearly communicate to all stakeholders why the Plan will succeed in addressing private company concerns when earlier efforts have failed. Indeed, this failure was a key factor in the Blue Ribbon Panel's recommendation for an authoritative board, separate from FASB. While we agree that maintaining a FASB member as the chairman of the PCSIC shows a commitment to the success of the Plan, other issues need to be addressed:

- How will priorities for both FASB and the PCSIC be determined? In the event of another "crisis" occurring that requires projects recommended by the G-20, the International Accounting Standards Board, or the Securities Exchange Commission (SEC), where will that leave the priorities of the FASB as it relates to the PCSIC? Will PCSIC's scope include both current and proposed standards?
- How will work of the PCSIC be funded? Will issues addressed by the PCSIC be researched by FASB staff members, and how will their work be prioritized? Will related outreach to stakeholders be likewise funded and prioritized? Will FAF invite user organizations, e.g., ABA, to nominate PCSIC members?
- What is the justification for the PCSIC for limiting its meetings to four to six times per year? If an issue is urgent, should not the PCSIC be free to meet more often? Can the

Private Company Financial Reporting Group continue to serve in an advisory capacity to PCSIC?

- What assurances can FAF provide that PCSIC's recommendations will be decisioned promptly by FASB and, if approved, be implemented expeditiously?
- How will field testing and implementation reviews for any new accounting standards be conducted to ensure private company concerns are identified? Will this be the responsibility of the PCSIC?
- How will FAF Trustees assess progress of the Plan prior to the end of the three-year period? What kind of benchmarks and other performance measures will be used?
- Considering the current SEC Concept Paper on Incorporating International Financial Reporting Standards (IFRS) in U.S. financial reporting for publicly-held companies, how should IFRS for Small and Medium Enterprises (SMEs) be treated? Will there be a similar adoption process for IFRS for SMEs as for public companies? Will the PCSIC be involved in the review of IFRSs considered for adoption in the U.S.? If the U.S. adopts IFRS, will there be a need to converge IFRS for SMEs with U.S. private company reporting?

In summary, the Plan, with modifications that address the above issues, represents a positive step towards addressing the unnecessary complexity required in the financial statements of many privately-held enterprises. This will enable FAF to demonstrate, prior to finalization of any plan, that it is committed to addressing private company accounting concerns in a thorough, dedicated and expedient manner.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette

Attachment

American Bankers Association
Building Success. Together.

Donna J. Fisher
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September 8, 2011

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Terri Polley
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Re: Private company reporting – ABA survey of lenders

Dear Paul and Terri,

As you may recall, the ABA nominated a community bank representative to the Blue-Ribbon Panel on Standard Setting for Private Companies[1], and he participated in the meetings and deliberations that led to the Panel's Report to the Board of Trustees of the Financial Accounting Foundation (January 2011).[2] Subsequent to the release of the Panel's Report, the ABA has been asked by a number of different groups what bank lenders views are about the Panel's

[1] In December 2009, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Foundation (FAF), the parent organization of the Financial Accounting Standards Board (FASB), and the National Association of State Boards of Accountancy (NASBA) established a "blue-ribbon" panel to address how accounting standards can best meet the needs of users of U.S. private company financial statements. The Panel was charged with providing recommendations on the future of standard setting for private companies to the FAF Board of Trustees.

[2] The Panel's report includes the following: "The Panel has concluded that there are urgent and growing systemic issues that need to be addressed in the current system of U.S. accounting standard setting. The Panel members believe that the system has not done a sufficient job of (a) understanding the information that users of private company financial statements consider decision-useful and how those information needs differ from those of users of public company financial statements and of (b) weighing the costs and benefits of GAAP for use in private company financial reporting. These issues have caused a lack of relevance of a number of accounting standards for many users of private company financial statements and an overall level of complexity in U.S. GAAP that continues to concern preparers of private company financial statements and their CPA practitioners. Some members believe that GAAP is overly complex for public companies, too. Many Panel members believe that within the U.S. marketplace, significant, unnecessary cost is being incurred for GAAP financial statement preparation and audit, review, or compilation services. Thus, change is urgently needed."

recommendations. The purpose of this letter is to provide you with the results of our survey of bank lenders on this topic.

Part of the debate about whether private company reporting should differ from public company reporting has centered on the needs of users, including lenders. In order to try to be responsive to inquiries, we conducted a survey of some of the bank lenders that are actively involved with the ABA. The primary group surveyed was the ABA Commercial Banking Committee (80 lenders). Because most of the responses received from the Committee were from community banks, we specifically requested responses from some large banks (27 lenders). The survey was also posted on our website. Thus, although the survey does not necessarily represent a valid statistical sample, and the results should not be extrapolated to reflect the views of all ABA members, the 47 responses received may provide you with useful information.

The sizes of banks that responded to the survey, compared with total industry bank sizes, are as follows:

Bank Total Asset Size	Survey Responses		Total Industry	
	Number	Percentage	Number	Percentage
Under $5 billion	32	68%	7,361	97.8%
$5-19 billion	5	11%	106	1.4%
$20-49 billion	1	2%	24	.3%
$50-99 billion	0	0%	18	.2%
$100 billion and over	6	13%	19	.3%
No response	3	6%	0	0.0%
	47	100%	7,528	100.0%

The survey focused on lending to private companies. Based on the survey responses:

1. Close to eighty percent responded that 0-20% of their private company customers have audited financials.
2. Tax returns are used more often than audits, compilations, or reviews in lending decisions for private companies. Tax returns are used approximately 51% of the time, while audits, compilations, and reviews are each used approximately 15% of the time, and internally prepared financials are used approximately 4% of the time.
3. The larger the private company's total loan balances, the more important audited financial statements are to lenders. On a scale of 1 to 5 (with 5 being very important), respondents said that for small loan balances (under $250,000), audited financials are not important (1.23 average rating), for mid-size loan balances ($250,000-1 million) the average rating was 2.3, and for the large loan balances (over $1 million), the rating was 3.8.
4. When asked if lenders believe their customers would voluntarily have audits (if a new set of accounting standards were to be established for private companies and if the price of

audits became more reasonable than existing audits are), about 34% of the lenders believe that almost none of their private company borrowers would voluntarily have audits, close to half the lenders believe that some private companies would voluntarily have audits, about 13% believe that many would have audits, and about 2% believe that most would have audits.

5. When asked if lenders would require borrowers who do not currently have audited financial statements to obtain audits (if a new set of accounting standards were to be established for private companies and if the price of audits became more reasonable than existing audits are), 70% responded that they would require this of some borrowers – particularly if there is a large volume of loan exposure. Approximately 13% would not require audits, approximately 13% would require audits of some borrowers based on reasons other than the size of the loan exposure (primarily the complexity of the lending relationship), and approximately 4% would not require private company audited financial statements.
6. Over 70% of lenders are not concerned about their own ability to keep current on two sets of accounting standards (public vs. private), while 28% prefer that lending decisions be based on one set of accounting standards rather than having a public vs. private differential.
7. When asked their views about whether private company accounting standards should be developed and, if so, by whom, 45% believe that accounting standards are overly complex and prefer that standard-setters focus on reducing complexity for all companies rather than focusing solely on private companies. Forty-three percent believe that there should be private company accounting standards, with 84% of this group of respondents preferring that the private company accounting standard setting be related to the FASB (either directly by the FASB or indirectly under the FAF) rather than the IASB or a separate organization. Approximately 11% believe that no private company accounting standards should be developed, and approximately 5% believe the U.S. should adopt the IASB's accounting standards for small and medium size companies.
8. With regard to making lending decisions for private companies, approximately 91% believe the current accounting standards are very useful, useful, or acceptable; approximately 9% believe they are not useful.
9. On a scale of 1 to 5 (with 5 being very useful), the usefulness of the individual parts of the financial statements, in order of importance are: income statement (4.8 average rating), balance sheet (4.6), footnotes (4.3), and statements of cash flows (4.0).
10. With regard to lending to not-for-profit organizations, the following information was provided:
    - For approximately 43% of respondents, less than 5% of their lending is to not-for-profit organizations; 36% have 5-9%, and 16% have 10-19%.
    - Approximately 64% of respondents would require private company audited financials from not-for-profit organizations selectively, depending upon the

volume of lending exposure. Approximately 16% would not require these audits; approximately 9% would require this for most not-for-profit organizations; approximately 9% would require this based on reasons other than loan size.

11. An open question was asked about how accounting standards could be improved to make them more useful to private companies. Twenty suggestions were provided, which included a variety of recommendations, with the most common theme being simplification. One respondent suggested the development of industry standards that all lenders would require.

The survey results are attached. We hope this information is useful to you as you proceed with your work on private company reporting. Please feel free to contact me (dfisher@aba.com or 202-663-5318) if we can be helpful.

Sincerely,

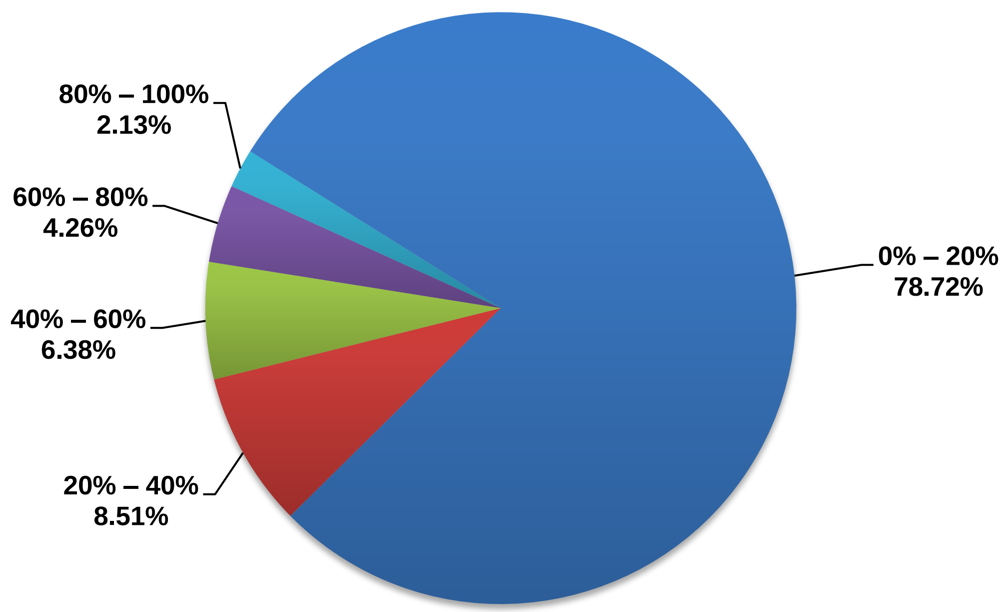
Donna J. Fisher

Donna Fisher

Enclosure

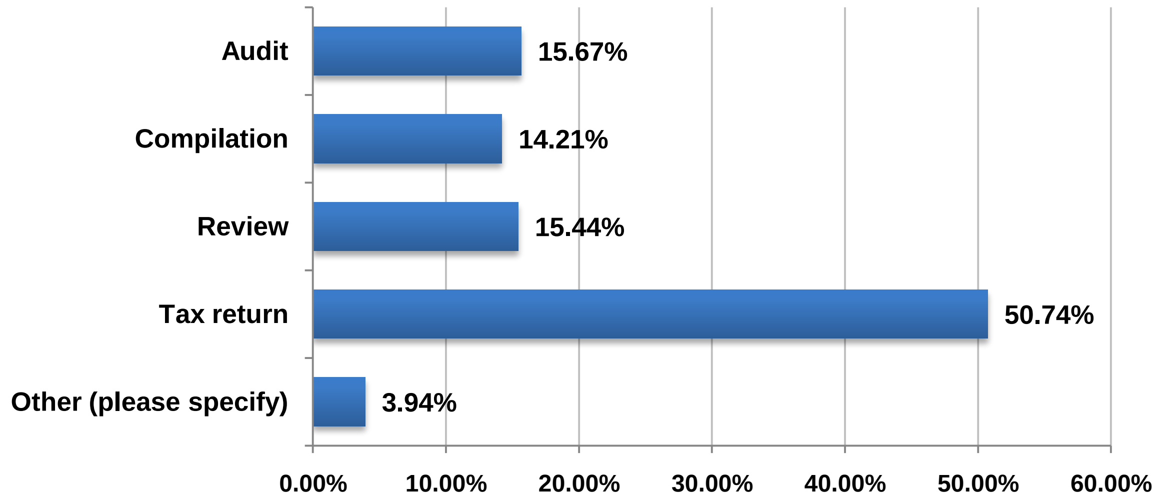
Lending to Private Companies
(number of respondents: 47)

1. What percentage (approximately) of your private company customers have audited financial statements?



#	Answer	Response	%
1	0% – 20%	37	78.72%
2	20% – 40%	4	8.51%
3	40% – 60%	3	6.38%
4	60% – 80%	2	4.26%
5	80% – 100%	1	2.13%
	Total	47	100.00%

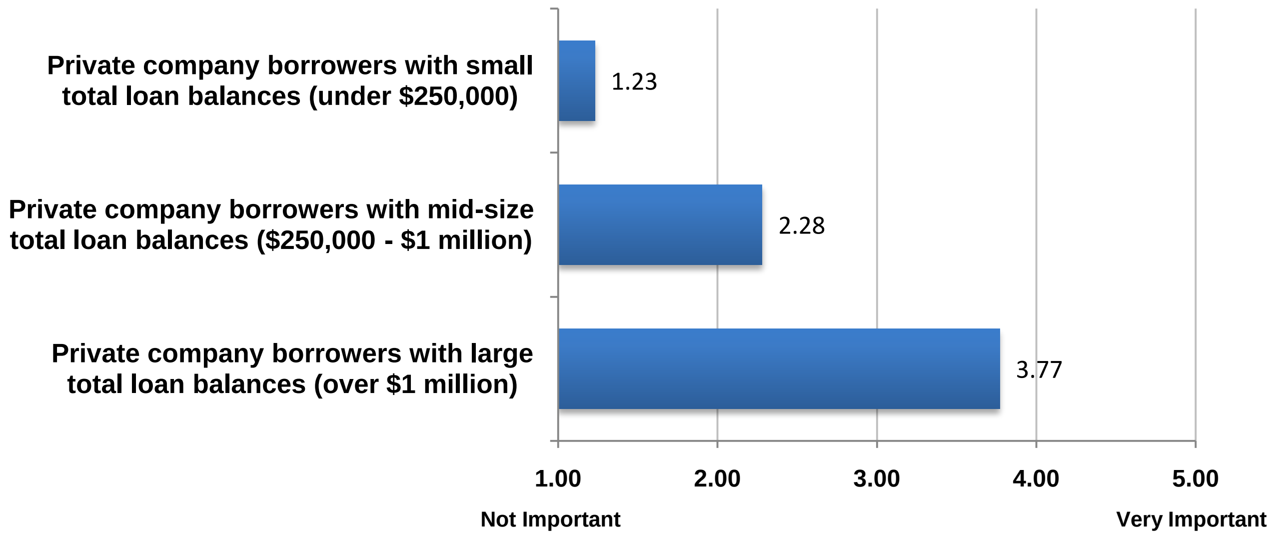
2. What percentage of the time do you typically rely on the following for lending to private company borrowers (Please make sure that your answers add to 100%):



#	Answer	Min Value	Max Value	Average Value	Standard Deviation
1	Audit	0	100	15.67	22.60
2	Compilation	0	50	14.21	12.48
3	Review	0	60	15.44	12.12
4	Tax return	0	100	50.74	29.07
5	Other (please specify)	0	40	3.94	9.83

Other (please specify)
Company prepared (2 responses)
Internally prepared (5 responses)
Rent Rolls

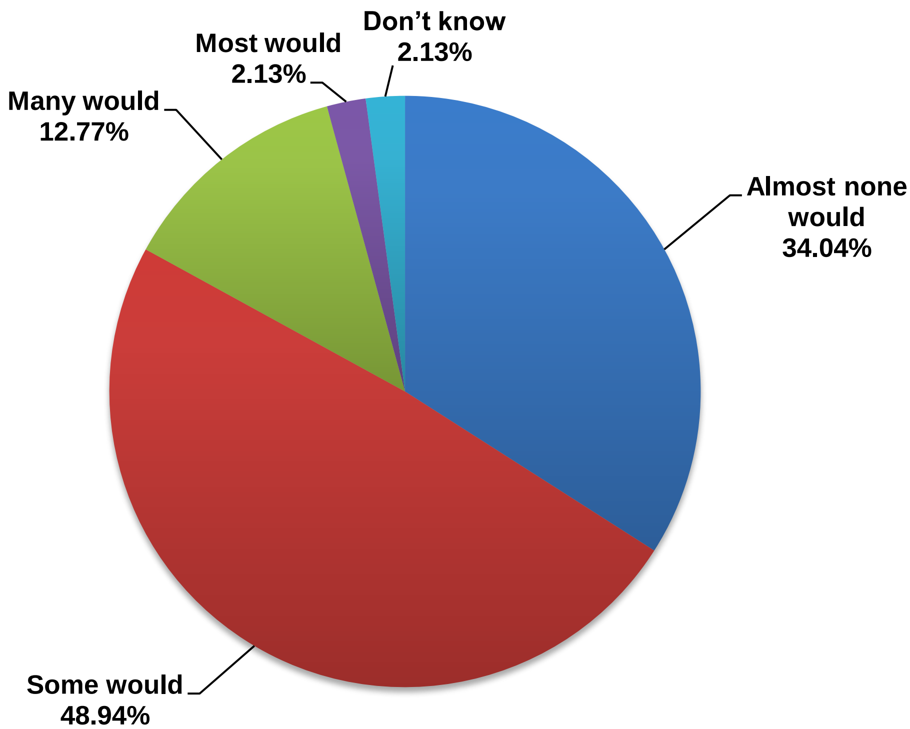
3. On a scale of 1 – 5 (with 5 being very important), how important is it to you that your private company borrowers obtain audited financial statements:



#	Question	Not Important 1	2	3	4	Very Important 5	Responses	Mean
1	Private company borrowers with small total loan balances (under $250,000)	38 80.85%	7 14.89%	2 4.26%	0 0.00%	0 0.00%	47	1.23
2	Private company borrowers with mid-size total loan balances ($250,000 - $1 million)	9 19.15%	19 40.43%	16 34.04%	3 6.38%	0 0.00%	47	2.28
3	Private company borrowers with large total loan balances (over $1 million)	0 0.00%	5 10.64%	12 25.53%	19 40.43%	11 23.40%	47	3.77

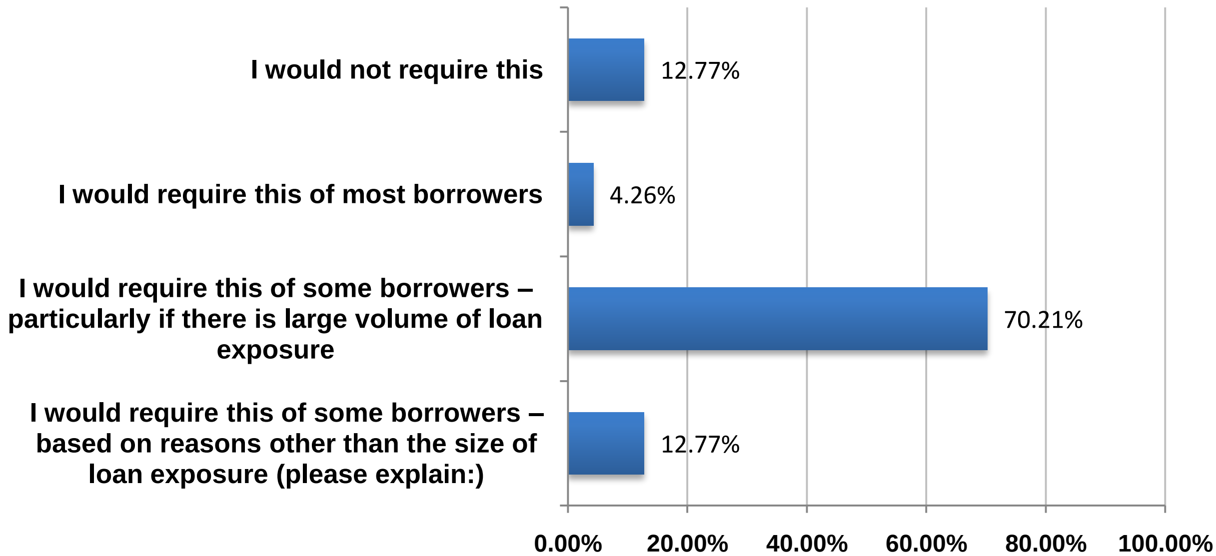
If a new set of accounting standards were to be established for private companies, and if the price of audits became more reasonable under those rules than existing audits are:

4a. What is the likelihood that your private company borrowers who do not currently have audited financial statements would voluntarily have their financial statements audited?



#	Answer	Response	%
1	Almost none would	16	34.04%
2	Some would	23	48.94%
3	Many would	6	12.77%
4	Most would	1	2.13%
5	Don't know	1	2.13%
	Total	47	100.00%

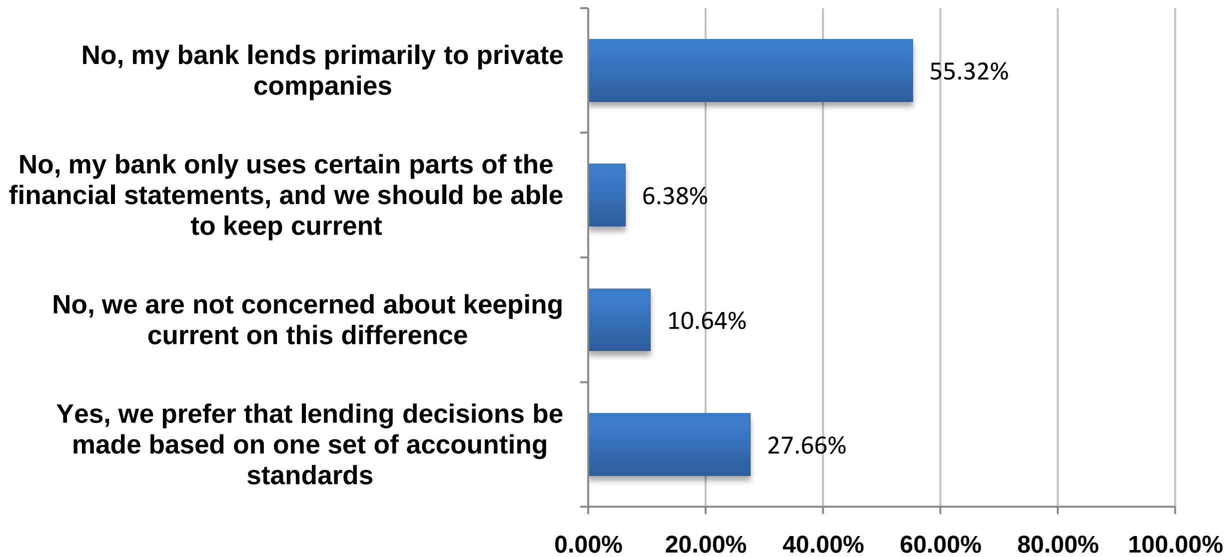
4b. What is the likelihood that you would require your private company borrowers who do not currently have audited financial statements to obtain audited financial statements under private company accounting rules?
(Please choose the best answer)



#	Answer	Response	%
1	I would not require this	6	12.77%
2	I would require this of most borrowers	2	4.26%
3	I would require this of some borrowers – particularly if there is large volume of loan exposure	33	70.21%
4	I would require this of some borrowers – based on reasons other than the size of loan exposure (please explain:)	6	12.77%
	Total	47	100.00%

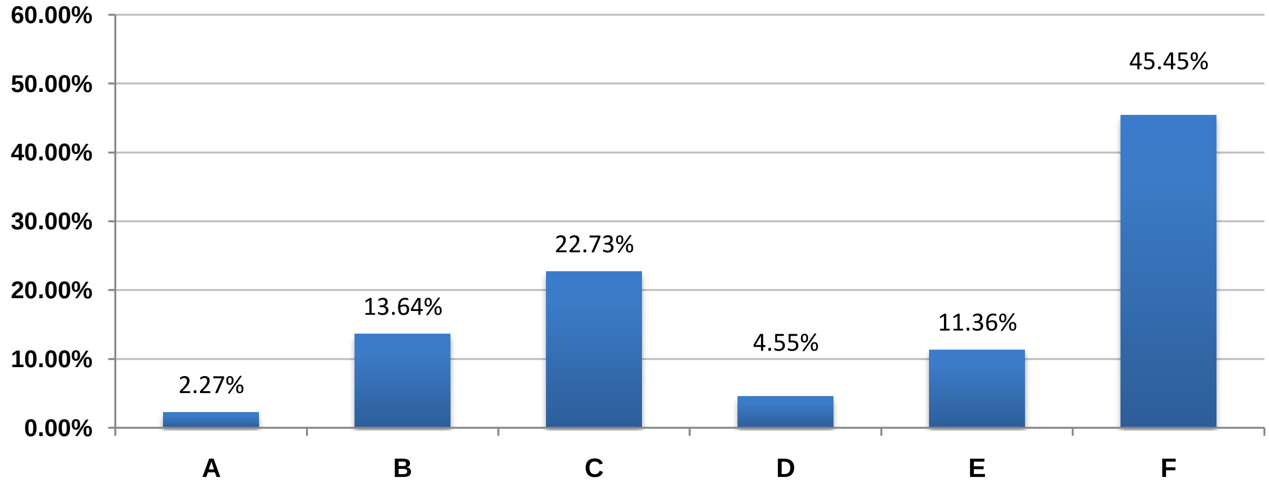
I would require this of some borrowers – based on reasons other than the size of loan exposure (please explain:)
Complexity of Business Operations & Loan Exposure
Depend on the Complexity of the relationship
Loan exposure plus complexity of business, amount of related-party transactions
Questionable secondary repayment sources--guarantors, collateral

5. If a new set of accounting standards were to be established for private companies, do you have any concern about keeping current on two sets of standards (public company vs. private company accounting standards)?



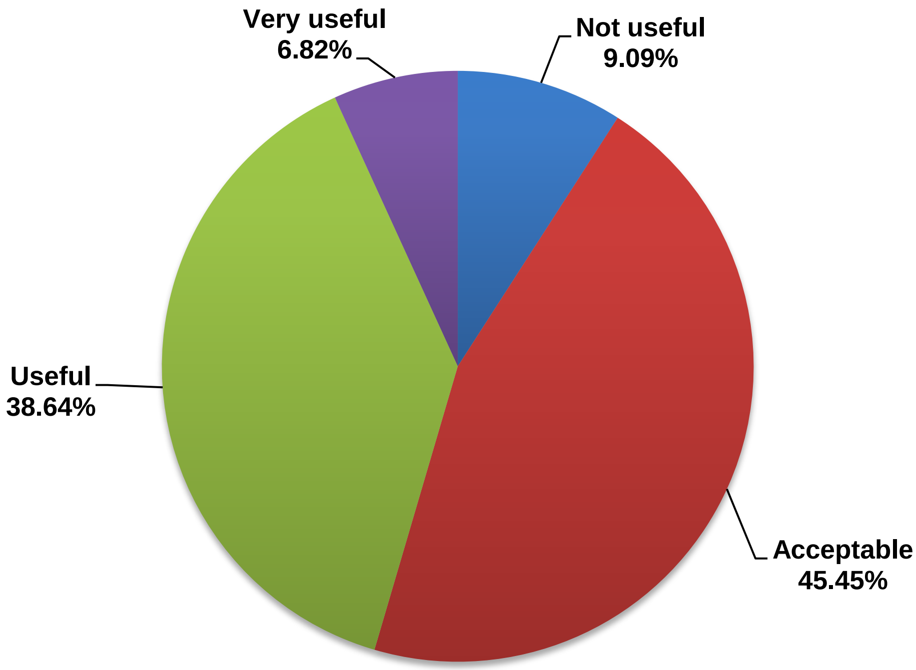
#	Answer	Response	%
1	No, my bank lends primarily to private companies	26	55.32%
2	No, my bank only uses certain parts of the financial statements, and we should be able to keep current	3	6.38%
3	No, we are not concerned about keeping current on this difference	5	10.64%
4	Yes, we prefer that lending decisions be made based on one set of accounting standards	13	27.66%
	Total	47	100.00%

6. Please choose the item below that most closely describes your views:



	Answer	Response	%
A	A new group of accounting rulemakers should be established to develop accounting standards for private companies. The new group would be completely separate from the FASB.	1	2.27%
B	A new group of accounting rulemakers should be established to develop accounting standards for private companies. The new group would be separate from the FASB, but would be under the same umbrella as the FASB and report to the same group of trustees that the FASB currently serves.	6	13.64%
C	A new group of accounting rulemakers should be established to develop private company accounting standards. The new group would report to the FASB, and FASB would approve the new standards.	10	22.73%
D	The U.S. should adopt the accounting standards for small and medium size companies that have been developed by the International Accounting Standards Board.	2	4.55%
E	No private company accounting standards should be developed.	5	11.36%
F	Accounting standards are overly complex, and we should focus on reducing complexity for all companies rather than focus solely on private companies.	20	45.45%
	Total	44	100.00%

7. With regard to making lending decisions for private companies, are the current accounting standards:



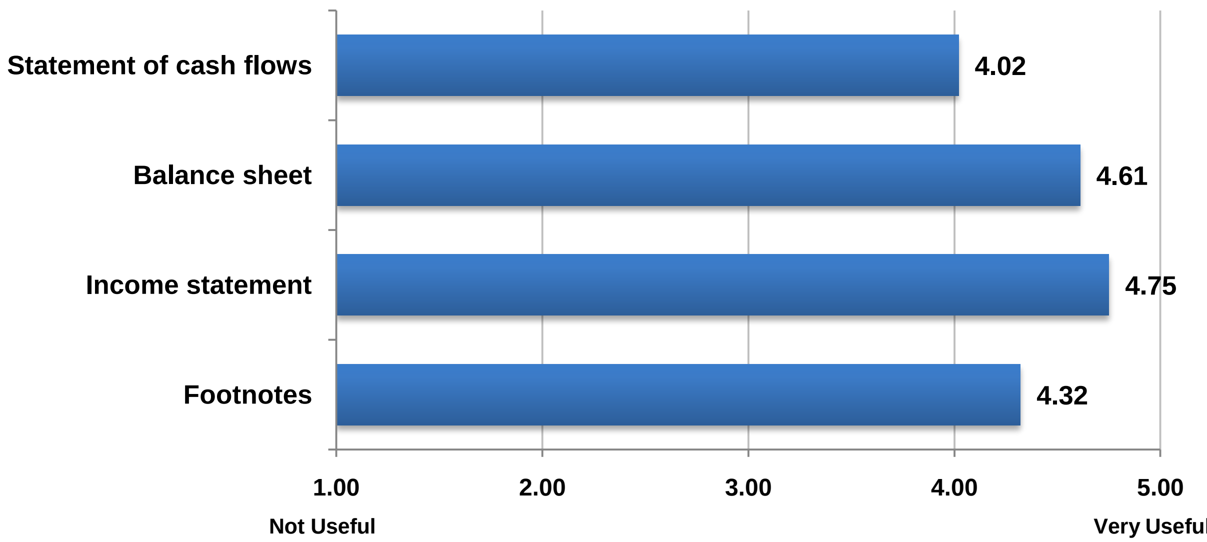
#	Answer	Response	%
1	Not useful	4	9.09%
2	Acceptable	20	45.45%
3	Useful	17	38.64%
4	Very useful	3	6.82%
	Total	44	100.00%

Statistic	Value
Min Value	1
Max Value	4
Mean	2.43
Variance	0.58
Standard Deviation	0.76
Total Responses	44

8. How could the accounting standards be improved to make them more useful in lending to private companies?

Text Response
Accounting standards for smaller private companies should be based on the same accounting principles as set for larger public companies; however, smaller companies should be able to implement an abbreviated or simplified version of those accounting standards.
Additional disclosure for Selling General & Administrative expenses breakouts along with balance sheet disclosure for reserve accounts would be helpful including accumulated depreciation on various fixed assets. More comprehensive disclosure on taxes payable and distributions are essential. Comparative results with prior years would help in making informed decisions.
Affordable, comprehensive.
Development of industry standards that all lenders (and their regulators) would require.
Differentiate current GAAP between principles applicable to private companies and those applicable to public companies. FIN 46, FIN 48 doesn't make much sense for private companies, for example.
Eliminate FIN 46 compliance for private companies.
Fair value accounting & remove complexities that infrequently come in to play or that don't materially change an outcome.
FASB is out of touch with reality. Fair value accounting with banks is absurd.
Full disclosure footnotes.
I've been doing this (lending) for 40 years and I have never seen such a dearth of audited financials. We rely on ABL audits as a substitute for audits when possible. Greater reliance could be made on a higher quality reporting. We view compiled and review statements as heavily biased toward the borrower's needs (tax etc.) and do not rely on them. More independence and validation of key components would be useful.
Identify highly complex, costly to administer, limited benefit issuance/standards that could be exempted from private company standards (e.g. goodwill impairment, fair value measurements, variable interest entities, etc.), thus reducing cost of compliance. This would reduce costs of 3rd party audits, while still maintaining a significant degree of consistency and comparability.
More cash flow oriented.
More consistency, less complexity in applying GAAP.
No solution at this point.
Simplification and standardization.
Simplify. (2 responses)
Simplify them as much as possible.
The standards are generally fine. It's the perceived "waste of money" that's the issue with both community lenders and business owners.
You can improve them by not improving them. The more complex you try to make them, the more useless they become. There are only so many ways to split a $1.00 sale.

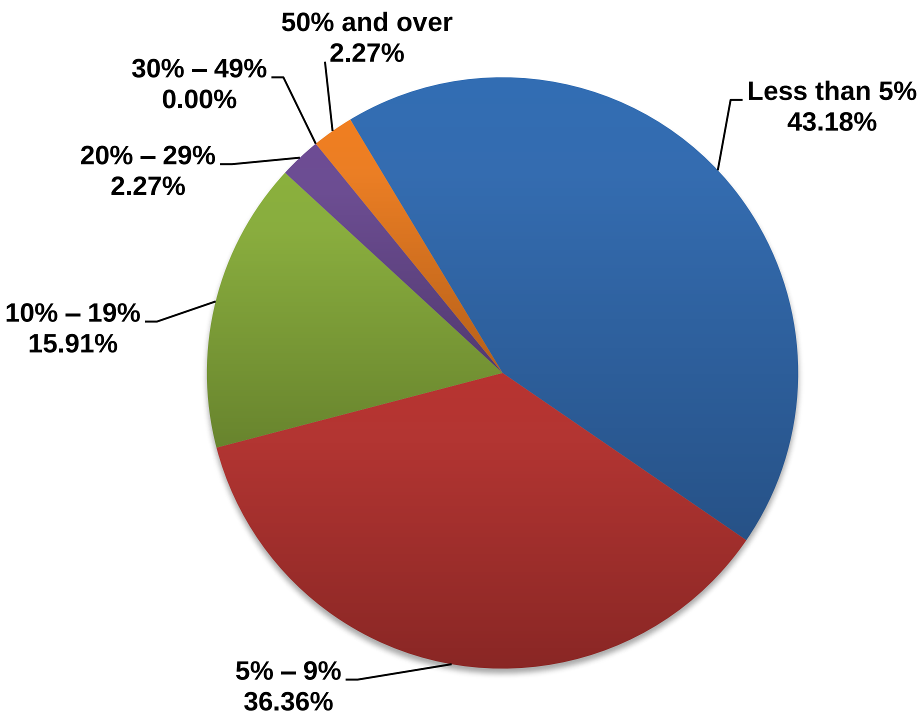
9. On a scale of 1 to 5, with 5 being very useful, how useful to you in making lending decisions are these parts of the financial statements?



#	Question	Not Useful 1	2	3	4	Very Useful 5	Responses	Mean
1	Statement of cash flows	1 2.27%	6 13.64%	5 11.36%	11 25.00%	21 47.73%	44	4.02
2	Balance sheet	0 0.00%	1 2.27%	2 4.55%	10 22.73%	31 70.45%	44	4.61
3	Income statement	0 0.00%	0 0.00%	2 4.55%	7 15.91%	35 79.55%	44	4.75
4	Footnotes	0 0.00%	2 4.55%	6 13.64%	12 27.27%	24 54.55%	44	4.32

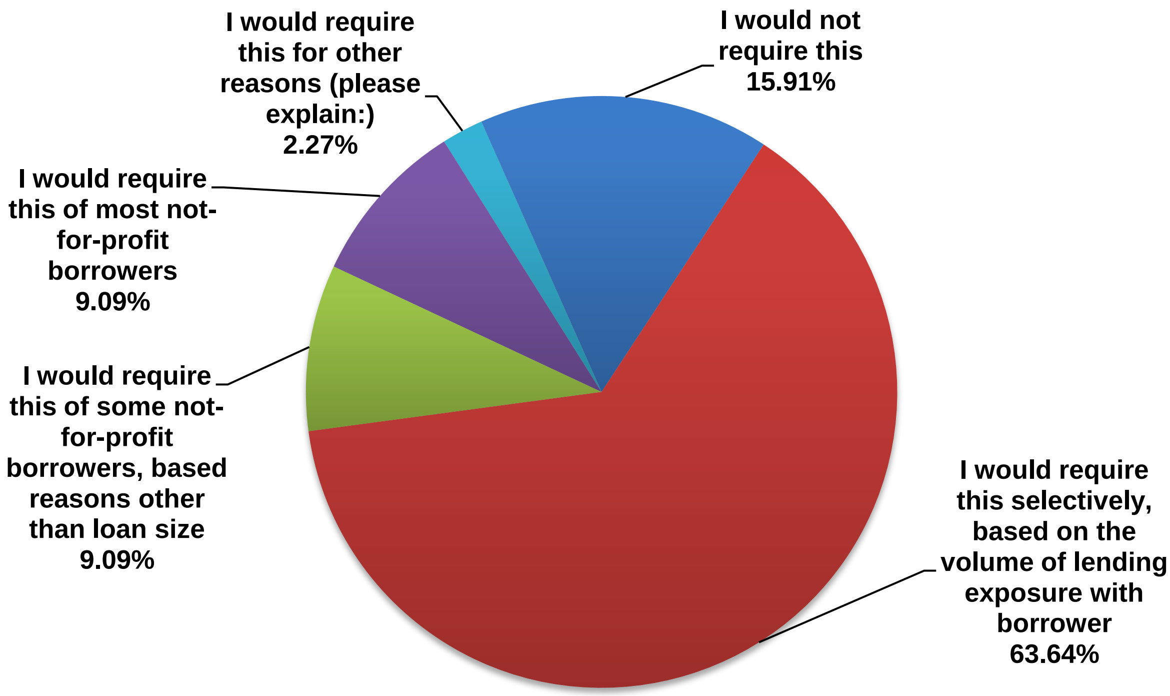
Regarding lending to not-for-profit organizations:

10a. What percentage of your private company lending is to not-for-profit organizations?



#	Answer	Response	%
1	Less than 5%	19	43.18%
2	5% – 9%	16	36.36%
3	10% – 19%	7	15.91%
4	20% – 29%	1	2.27%
5	30% – 49%	0	0.00%
6	50% and over	1	2.27%
	Total	44	100.00%

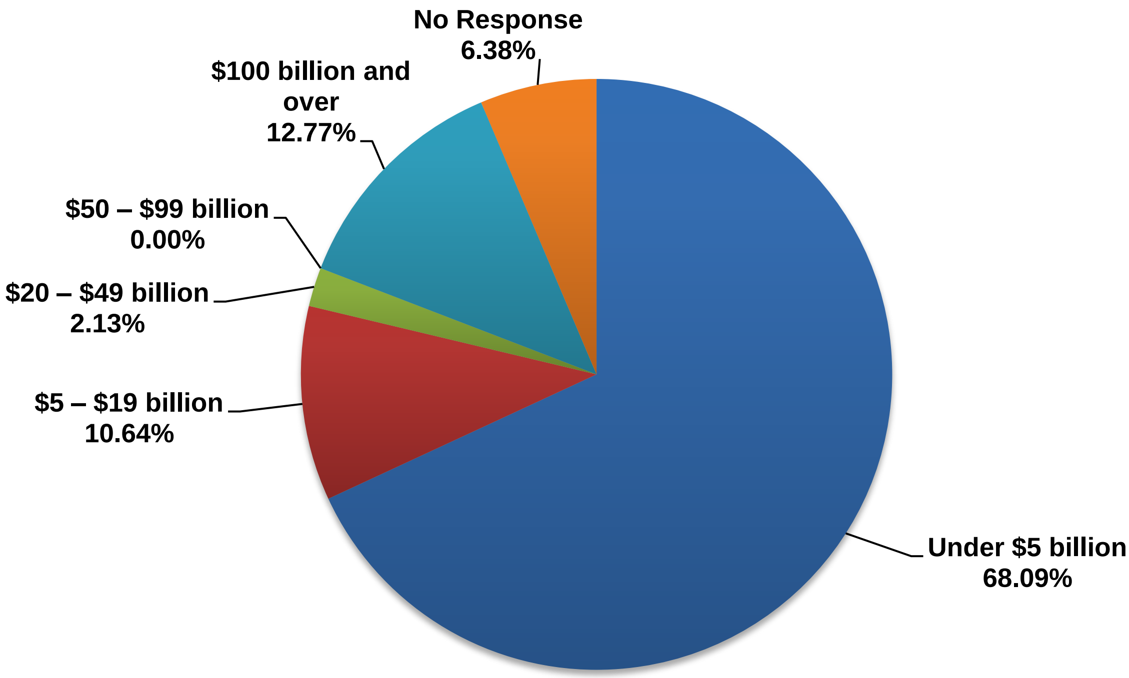
10b. With regard to lending to not-for-profit organizations, what is the likelihood that you would require your not-for profit customers who do not currently have audited financial statements to obtain audited financial statements under the private company accounting rules (please choose one)?



#	Answer	Response	%
1	I would not require this	7	15.91%
2	I would require this selectively, based on the volume of lending exposure with borrower	28	63.64%
3	I would require this of some not-for-profit borrowers, based reasons other than loan size	4	9.09%
4	I would require this of most not-for-profit borrowers	4	9.09%
5	I would require this for other reasons (please explain:)	1	2.27%
	Total	44	100.00%

I would require this for other reasons (please explain:)
State of MA requires audits if revenues exceed $1 million.

11. What is the total asset size of your bank?



#	Answer	Response	%
1	Under $5 billion	32	68.09%
2	$5 – $19 billion	5	10.64%
3	$20 – $49 billion	1	2.13%
4	$50 – $99 billion	0	0.00%
5	$100 billion and over	6	12.77%
6	No response	3	6.38%
	Total	47	100.00%