

# A Separate GAAP?

**A blue-ribbon panel will look into whether private U.S. companies should get their own version of accounting rules. Source: CFO.com**

Should privately held companies have their own set of accounting rules? Many finance managers would no doubt say yes, particularly those at small private businesses that have to contend with rules designed for much larger and more complex organizations.

Entering the debate will be a blue-ribbon panel sponsored by the American Institute of Certified Public Accountants, the Financial Accounting Foundation, and the National Association of State Boards of Accountancy. Announced last week, the panel will explore the process of accounting standard-setting for private companies and recommend whether they need their own version of generally accepted accounting principles.

The panel's members, who will be named in January, will include lenders, investors, owners, preparers, auditors, and regulators. NASBA president and CEO David Costello says the sponsoring group has yet to decide on the time frame for when the panel needs to make its final recommendations, but that the group will likely seek input from the public.

Other groups have addressed the question of whether private companies need a "little GAAP." The Financial Accounting Standards Board has previously balked at the notion, but it has co-sponsored, along with the AICPA, the Private Company Financial Reporting (PCFR) Committee, which has been providing input to the standard-setting process on behalf of private companies.

The blue-ribbon panel will offer an "independent, objective look" at the issue, says Costello. "Multinational companies and very, very large companies with multibillions in sales are quite different than a \$50 million-in-revenue company," he says. "The argument goes that we should look at them differently and perhaps apply a different accounting basis to them."

The debate intensified earlier in this decade as financial reporting became more onerous for public companies following the collapse of Enron and the passage of the Sarbanes-Oxley Act. The resulting increased scrutiny by auditors spilled over to private companies, which have reported their audit fees rising along with their expense of following GAAP.

Moreover, the changes have created a disparity between the needs of private- and public-company investors, says Jim Smith, CFO of privately held Phonon Corp. "The proliferation of rules out of FASB is basically being driven by public-company investors," says Smith, who sits on both the PCFR Committee and the Institute of Management Accountants' small-business committee. "Because of Regulation FD, they don't have the ability that private-company users of financial information have, to call up a company and ask questions. They want more and more disclosure and information in the financial statements that the users of private-company financials really don't need."

Smith adds that he would favor carving out for private companies a subset of either FASB's rules or international financial reporting standards, if the United States ends up adopting the latter.

To be sure, the new blue-ribbon panel will have to broach the subject of IFRS, which has its own separate set of guidelines for private companies. Released over the summer, "IFRS Light" offers small and midsize companies a slimmed-down version of international reporting standards and the promise that they'll be revised only once every three years.

However, interest in the rules by U.S. private companies, which could adopt them, has languished. Fueling the lackadaisical response could be the fact that the Securities and Exchange Commission hasn't decided whether to move forward with its roadmap, proposed more than a year ago, which would require all U.S. publicly traded companies to adopt IFRS. Also, there is a widespread belief that banks, creditors, and small audit firms wouldn't feel confident in handling IFRS-prepared financial statements, because they aren't trained on IFRS.

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