



August 15, 2006

The Financial Accounting Standards Board and
The American Institute of Certified Public Accountants

Thank you for the Invitation to Comment on the joint proposal of the Financial Accounting Standards Board and the American Institute of Certified Public Accountants entitled *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies*.

Typically, the Virginia Society of Certified Public Accountants authorizes a task force to comment on proposals, and task force comments are not intended to be a position of the Society. However, the joint proposal has an especially pervasive effect on the members of the Society and the entities they serve. Accordingly, we took a different approach to developing comments on the joint proposal, and the comments are *a position of the Society*, which has 8,200 members.

While the Society believes ensuring the continued relevance of generally accepted accounting principles to financial reporting by all private companies is important, we believe it is especially important for a subset of private companies—small and midsize nonpublic entities. These entities comprise a significant portion of the number of private companies, and their reporting needs often differ from those of large private companies.

The Board's extension of the provisions of some relatively recent accounting pronouncements to small and midsize nonpublic entities has renewed discussions among the management of many of these entities, their advisors, and the primary third-party users of their financial statements about either—

- changing to a comprehensive basis of accounting other than generally accepted accounting principles or
- accepting an audit, review, or compilation report modified for departures from generally accepted accounting principles they believe are not relevant to the users of the financial statements.

This does not bode well for the continued credibility of accounting principles that are designated as *generally accepted*.

We believe the approach proposed in the Invitation to Comment is a sound one. Specifically, we believe the proposed changes discussed in paragraphs 16 through 29 of the Invitation to Comment will help ensure that the financial reporting needs of small and midsize nonpublic entities will be met. We also believe that differences in generally accepted accounting principles for these entities should

be based on financial statement user needs and cost-benefit considerations. However, there are two critical factors for evaluating the effectiveness of the advisory committee:

- the skills and dedication of its members and
- the responsiveness of the Board to its recommendations.

Members of the advisory committee will need to be able to determine whether the financial reporting needs of small and midsize nonpublic entities are different from those of other entities. If the needs are different, the members of the advisory committee will need to be able to clearly articulate how the needs are different. Members will also need to be able to determine if the benefits exceed the costs of existing or proposed standards. These are not always easy tasks for specific accounting issues and will require the members of the advisory committee to have significant experience with financial reporting, significant experience with small and midsize nonpublic entities, and a thorough understanding of generally accepted accounting principles. Some members will also need to have experience with standards setting, and all members of the advisory committee will need to be open-minded and dedicated to ensuring the continued relevance of generally accepted accounting principles to small and midsize nonpublic entities.

We believe ensuring the advisory committee is effective will require a significant time commitment by all members of the committee, not just its chair. Nevertheless, on balance, we believe the attraction of serving on the advisory committee should be the opportunity to make a significant professional contribution, and the presence or absence of compensation should not affect the decision as to whether to serve. We therefore support the tentative conclusion that all members of the advisory committee should be reimbursed for reasonable expenses incurred but only the chair should be compensated.

Being properly responsive to the recommendations of the advisory committee will require the continuing focus of the members of the Board. That will be difficult considering the broad range of significant issues the Board must consider. Perhaps the best way to ensure the Board is able to retain its focus is ultimately to ensure that a Board member and a senior staff member have significant experience with small and midsize nonpublic entities. Similarly, the advisory committee will need staff support from individuals who have significant experience with these entities. While liaisons and similar activities by Board members and staff are certainly helpful, we believe they are not nearly as effective as actually having significant experience in dealing with the financial reporting needs of these entities.

A highly-qualified, dedicated advisory committee and a properly responsive Board will go a long way toward ensuring that accounting principles designated as generally accepted continue to be relevant



to small and midsize nonpublic entities. That would provide a significant benefit for both the preparers of financial statements of these entities and the users of the financial statements.

Thank you again for the opportunity to express our views on the joint proposal. We are ready to help in any way possible to ensure that this project is successful!

Sincerely,

A handwritten signature in black ink that reads "Bradley M. Roof". The signature is written in a cursive style with a horizontal line underneath the name.

Bradley M. Roof, CPA, CMA, Ph.D.
Chair, the Virginia Society of Certified Public Accountants