



Committee on Private Companies

August 2, 2006

Mr. Lawrence W. Smith
Director – Technical Application and Implementation Activities
Financial Accounting Standards Board
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Dear Mr. Smith:

The Standards Subcommittee of the Committee on Private Companies (“CPC”) of Financial Executives International (“FEI”) wishes to share its views on the Invitation to Comment (“ITC”) on *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies*. FEI is the leading advocate for the views of corporate financial management in the United States. It is a professional association of more than 15,000 CFOs, treasurers, controllers and other senior financial managers. With approximately 7,500 members from private companies, FEI has a strong base of knowledge to draw upon with regard to the financial reporting needs and requirements of the private sector. The CPC is a technical committee of FEI, which formulates private company positions for FEI in line with the views of the membership. This letter represents the views of the Committee on Private Companies, Standards Subcommittee, and not necessarily the views of FEI.

We applaud the efforts of the FASB and AICPA to jointly address the needs of the users of private company financial reporting. To that end, we support the ITC’s proposal to (1) make certain improvements to the FASB’s current processes for determining whether differences are needed in prospective and existing standards for private company financial reporting and (2) sponsor a committee designed to increase private company constituent input in the standard setting process.

We are also pleased to provide our responses to the five questions contained in the ITC.

Question 1: *Do you believe the proposal contained in paragraphs 16—29 will improve the accounting standard-setting process for private companies?*

Response: Yes, we believe this will be the case, particularly considering the procedures in paragraphs 24 and 27 of the ITC. Paragraph 24 states that the committee will have a “certain level of autonomy”. While we understand defining precisely “certain level” is not practical, we believe that “autonomy” is critical to the success and credibility of the committee in order for it to effectively represent the needs of the users of private company financial reporting. Considering the range of autonomy outlined in paragraph 27, it should be practical to eliminate the words “a certain level of” in paragraph 24, and thereby not restrict the spirit of the Committee’s work, or the intent of the FASB or AICPA.

Question 2: *Specific to paragraphs 16—29 do you believe that the proposed changes will help ensure that reporting needs of constituents of private companies are met?*

Response: While we are unable to determine if the proposed changes will “ensure” that needs are met, we do believe that the formation of an independent committee will create a reasonable possibility of achieving the reporting needs of private company constituents as long as those constituents are well represented on this committee.

Question 3: *The FASB and AICPA believe that any differences in generally accepted accounting principles (GAAP) for private companies should be based on financial statement user needs and cost—benefit considerations. Do you agree?*

Response: Yes, we agree. User needs and cost—benefit considerations should guide the tasks of the committee. A key initial task in achieving this guidance will be to accurately determine who are the users of private company financial reporting and what are their needs. The list of users in paragraph 8 of the ITC is an excellent start though it should not be considered complete.

We also believe that another key task for the committee will be to determine if private company user needs create *objectives* that are consistent with, or divergent from, the current objectives of general purpose external financial reporting contained in the existing FASB (and proposed joint FASB/IASB) conceptual framework. There is a possibility of differing *objectives* of financial reporting for private company users.

We believe that the ITC’s proposed committee should be free to fully research these topics at the *objectives level*. If the committee determines that private company financial reporting users do have differing objectives, and that those objectives are not consistent with the framework of “general purpose external financial reporting”, we anticipate that the FASB would consider such determination at the conceptual framework level.

Question 4: *The FASB and AICPA believe that members of the committee (except the chair) should not be compensated beyond a reasonable reimbursement of expenses. Do you agree?*

Response: We agree.

Question 5: *The FASB and the AICPA agree that the committee should set its own agenda and priorities. Do you agree?*

Response: We agree. We re-emphasize our comments in (a) our response to question 2 regarding the autonomy of the committee and the importance of the committee's governing operatives contained in paragraphs 24 and 27 of the ITC, and (b) our response to Question 3 regarding the consideration of the objectives of financial reporting for private company financial statement users.

In summary, we appreciate both the financial commitment and staffing additions being provided by the FASB and AICPA in support of the users of private company financial reports. FEI, and specifically the Standards Subcommittee of the Committee on Private Companies, look forward to working with the FASB and AICPA to assist in the success of this endeavor in any way that would be appropriate.

Sincerely,

A handwritten signature in black ink that reads "E.A. Thrower". The signature is written in a cursive style with a large, looping initial "E" and a long, sweeping underline.

Andy Thrower
Chair, Standards Subcommittee of the Committee on Private Companies
Financial Executives International