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August 7, 2006

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Enhancing the Financial Accounting and Reporting Standard-
Setting Process for Private Companies

Ladies and Gentlemen:

Covington & Burling LLP welcomes the opportunity to comment on the above-referenced joint proposal (the "Joint Proposal") by the Financial Accounting Standards Board ("FASB") and the American Institute of Certified Public Accountants ("AICPA"). We comment because of concern with the impact of the Joint Proposal on access for private companies to the U.S. capital markets as well as to capital provided by financial sponsors such as private equity and venture capital firms. While we do not submit these comments on behalf of a specific client, we base our concerns upon our firm's experience representing participants in initial public offerings and mergers and acquisitions involving private companies.

We acknowledge the statement in paragraph 17 of the Joint Proposal that the objective of the FASB and AICPA in modifying the standard-setting process for private company financial reporting is not to create a separate set of GAAP requirements for private companies. This statement seems to us to be at odds with other statements in the Joint Proposal, and we write to express concern that this process could in fact result in the cumulative development of a separate GAAP standard for private companies. To the extent this occurs, we believe this will adversely affect the access of private companies to the U.S. capital markets, as well as the ability of these companies to be acquired by U.S. public companies. These results would be detrimental to private companies, their investors and the U.S. capital markets in general.

We note that Paragraph 18c of the Joint Proposal suggests that FASB may suggest that differences between public-company and private-company GAAP relating to recognition, measurement, disclosure, transition or effective dates. We are concerned that differences relating to fundamental financial accounting and reporting standards such as recognition and

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measurement would, by definition, result in the evolution of a form of private-company GAAP that will vary materially from GAAP applying to public companies.

Our concern is that early-stage private companies will find it advantageous to adopt private-company variants to GAAP. This would be logical, as the opportunity to diverge would bear the imprimatur of both FASB and the AICPA, and would doubtless result in cost savings. For those companies that evolve to the point that they attract the interest of financial sponsors, and ultimately become candidates for initial public offerings, they will then be faced with the need to convert their historical financial statements to public-company GAAP standards so as to satisfy the SEC's financial statement requirements under Regulation S-X. The exercise of converting historical financial statements to public company GAAP standards of recognition and measurement, to the extent FASB were to adopt variants for private companies on these topics, could be costly and time consuming, particularly given the requirement under Regulation S-X that registrants present three years of income statement and cash flow data and two years of balance sheet data, or such lesser periods as the registrant has been in business.

We are concerned that this significant, and potentially costly, undertaking, would increase the cost of accessing the U.S. capital markets for private companies, as well as extend the time necessary for such companies to prepare for such a transaction. While initial public offerings are by definition not transactions that can be effected with the same speed as an offering by a seasoned issuer, the ability of a prospective issuer to calibrate the time and cost of an attempt to access the U.S. capital markets is an important component of a decision by management and the board to pursue such an opportunity.¹ A need to restate historical financial statements on such fundamental issues as recognition and measurement would appear to us to significantly increase both the cost and the time needed to prepare an initial public offering, which could cause companies that otherwise would opt for such a transaction to elect against it.

This issue poses similar risks to the ability of private companies to participate in other transactions with counterparties that will expect to be able to analyze public-company GAAP financial statements as part of their diligence. For instance, were the private company to be acquired by a public company, the acquiror would need to be able to analyze the impact of the acquisition on its financial statements, which would of course comply with public company GAAP standards.² Acquisitions such as this have emerged as a frequent alternative to initial

¹ We note that some public companies initially access the U.S. capital markets by issuing debt securities, often in transactions under Rule 144A of the Securities Act of 1933. Because these transactions are not registered with the SEC, they can be done more quickly than a registered initial public offering involving equity securities. Rule 144A transactions are typically followed by a registered exchange offer requiring full compliance with Regulation S-X. Therefore, as a practical matter, Rule 144A offering documentation contains financial statements that are compliant with Regulation S-X.

² This concern would be further exacerbated if pro forma financial information in respect of the proposed transaction would be required under Item 11 of Regulation S-X.

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public offerings for private companies that seek to provide their investors with the opportunity to realize upon the increase in the value of their investment. In addition, should a private company seek to obtain a loan or enter into a different form of financing transaction with a financial institution, that institution may expect to see public company GAAP financial statements.

We acknowledge that private companies have, to date, been permitted certain latitude in varying their financial statements from public company standards. These differences have focused on effective date and transition provisions for new accounting standards, and presentation differences in the footnotes to the financial statements. In our experience, these differences have not posed the types of risks that we describe above. We believe that differences that touch on recognition and measurement could permit far more significant variances, which could present these issues.

We therefore believe that if the committee suggested by the Joint Proposal is to be created, it is important that it include representatives of private companies that are at or near the stage of development where access to the capital markets is an option. We also believe that representatives of financial sponsors (such as private equity and venture capital investors) should participate, as should representatives of investment banks that act as underwriters in initial public offerings and as financial advisors in M&A transactions involving private companies. Without the meaningful participation of these constituencies, we believe that the committee's contributions to the standard-setting process will be biased in favor of creating private company variances to fundamental components of public company GAAP, without adequately considering the potential negative implications described above.

We believe the issues identified above are important to the U.S. capital markets. The world's capital markets are closely intertwined, and a prospective issuer now has viable options that do not include the United States. Recent concerns regarding perceived cost and timing advantages in pursuing offerings outside the United States have resulted in a perception that companies engaging in initial public offerings are more likely to elect to do so offshore to avoid the perceived cost and delay that compliance with United States standards entail. While we do not comment upon the validity of such concerns, we note that any proposal that increases the costs of accessing the U.S. capital markets, or the time necessary to consummate such a transaction, would increase the perception that the U.S. capital markets is a sub-optimal choice for prospective issuers. This would, we believe, be a negative and unnecessary consequence of the adoption of the Joint Proposal.

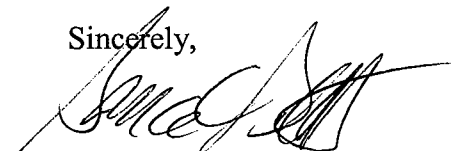
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We appreciate the opportunity to comment on the Joint Proposal, and would be happy to discuss our comments further.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce C. Bennett", with a long horizontal flourish extending to the right.

Bruce C. Bennett

cc: Scott Taub
Acting Chief Accountant
Securities and Exchange Commission

Carol A. Stacey
Chief Accountant
Division of Corporation Finance
Securities and Exchange Commission

John W. White
Director
Division of Corporation Finance
Securities and Exchange Commission