



**Bober, Markey, Fedorovich
& Company**

Certified Public Accountants / Business Advisors
A Professional Corporation

411 Wolf Ledges Parkway
Suite 400
Akron, Ohio 44311-1040
330.762.9785
FAX 330.762.3108
www.bobermarkey.com

James E. Merklin, CPA, CFE, M.Acc.
Direct Dial: 330.762.9785
jimm@bobermarkey.com

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Via E-Mail and U.S. Mail

Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 08856-5116

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

To Whom It May Concern:

Thank you for this opportunity to provide feedback to FASB and to the AICPA on this extremely important topic. I applaud both organizations for listening to the feedback from CPAs and privately held companies nationwide, and I am very pleased that this first step has been taken to address the needs of those companies and the users of their financial reports. It is extremely important to understand that there are a great deal more privately held companies than publicly held companies in the United States, so paying close attention to the needs of those companies is critical.

You specifically requested comment on the following five questions, and I shall endeavor to provide you responses directly addressing those and other points.

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

I do believe the proposal will improve the accounting standard setting process. Ultimately, the success or failure of the members of the Committee, assuming that FASB and AICPA provide adequate support of the process, will determine whether real change happens to enhance the standard setting process.

2. Specific to paragraphs 16-29 do you believe the proposed changes will help ensure that the financial reporting needs of constituents of private companies are met?

I do believe that the proposed changes will help.

3. The FASB and the 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?

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I agree with this whole heartedly. I believe this to be consistent with the conceptual framework, which provides that financial statements should provide information that is useful and relevant to the users of the financial statements in making knowledgeable business decisions. Recent market conditions have forced requirements, particularly in the public company marketplace, that are not necessarily cost effective, and I believe it is extremely important in the private company marketplace that careful attention be paid to the costs of compliance with standards, since that marketplace is much more sensitive to costs.

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

I fear that failure to compensate committee members could have a significant negative impact on the committee's ability to attract and retain the people needed to really give this issue the appropriate time and attention. For 4-6 annual in-person meetings plus telephone conferences and other activities in between meetings (preparation, research, etc.), the time commitment could be rather significant, especially if the committee were to conclude that significant differences in standards are appropriate and they undertake detailed assessments as to what changes should be proposed.

I would also caution you to consider that key financial personnel in privately held companies and the CPAs serving them tend to not have a lot of excess available time, and I am therefore concerned about your ability to get the right people involved in this committee unless compensation is available to either them or to their companies.

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

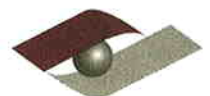
I agree with this whole heartedly. The integrity of this process would be questionable if the committee did not set its own agenda and priorities. That being said, there must clearly be participation and input from FASB and AICPA to assist in identification of potential issues for consideration, and the committee would have to establish for themselves how to most effectively use FASB and AICPA in this regard.

Further, I believe that consideration should be given by the committee to actions of the IASB in order to avoid inconsistencies between U.S. practices and international practices - as the IASB is also in the development stage in this area, the U.S. has a real opportunity to demonstrate leadership in this important area.

Other Comments and Considerations

Briefly, some other comments and considerations are as follows:

1. I was a bit surprised that the exposure draft did not specifically address the question "should there be differences?" but rather chose to leave that to the committee to address. I am fine with this, but feel it needs to be a rather high priority for the committee to go public with a position on this important topic, and within a reasonably short period of time.
2. I do appreciate FASB's solicitation of public comment on this matter. I have concern that there may not be a lot of comment because, unlike publicly held companies and national accounting firms, privately held companies and their local or small regional accounting firms generally do not have personnel on staff with time availability for reviewing every new pronouncement that is exposed for comment. Rather, these are people who, from a practical perspective, are more than likely address the new standard as something they



need to deal with on its effective date. I would hope that the committee would take into consideration the lack of available time for consideration of proposals of the interested parties.

3. I would ask that you also take into consideration and deliberation the role of the CPA in working with their privately held company clients. CPA's do not just serve as auditors to these companies, they also serve as the most trusted advisors to these companies. In addition to considering the implications of accounting rules, I would ask that AICPA also take this into consideration in their deliberations with respect to independence rules as applicable to privately held companies, which have become much tighter over the last few years, as some of these rules are making it more difficult for those companies to work effectively with their CPAs as advisors.
4. I have a bit of concern with respect to the role of the AICPA in this process. Since 1973, the benefit of creation of accounting rules by FASB has been the independence from the profession. I am wondering if the AICPA's joint participation / funding of this committee might be viewed by outside parties in the wrong vein?

Again, I thank you for the opportunity to comment on this important matter.

Sincerely,



James E. Merklin, CPA, CFE, M.Acc.
Partner

