



August 10, 2006

Technical Director-File Reference 1310-100
Private Company Financial Reporting www.pcfr.org
AICPA/FASB
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies: A Joint Proposal by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants

Dear Sir or Madam:

The National Cooperative Business Association (NCBA) is a national membership organization representing all types of cooperatives. Thank you for the opportunity to respond to the proposal *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies* issued by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). It is an important first step toward ensuring adequate and useful accounting standards for private companies and providing a forum in which to address issues specific to the cooperative model.

We applaud the efforts of FASB and AICPA to bring the issue of private company reporting to the forefront of the standard-setting policy debate. As member owned businesses, cooperatives have some unique features that accounting standards do not always take into account. In addition, some of the accounting standards may be inappropriate or irrelevant for users of financial statements of cooperatives. We hope this proposal will lead to the development of both a *process* for determining whether and how standards can accommodate the needs of all stakeholders and *standards* that incorporate the accounting needs of all private companies and the specific needs of cooperatives.

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

Cooperatives have urged standard setters and policymakers to include all relevant stakeholders in the standard setting process and to take into account the unique financial relationships and features of co-ops. We appreciate FASB's willingness and attempts to include and understand cooperative entities in their decision-making over the past few years. There appears to be a historical or inherent predisposition, however, towards publicly traded, investor owned companies and their constituents in developing accounting standards. While it is essential for accounting standards to meet the needs of those companies, private firms have found that some of the standards lack relevance or decision-usefulness for them and their constituents.

According to AICPA's Task Force report, "fundamental changes should be made in the GAAP standards-setting process to ensure that the financial reporting needs of private company constituents are met." A more formal process to ensure greater input from private company constituents will enhance the standard setting process for both private company constituents and the FASB and its staff. Also, such a process may help prevent problems such as those experienced with the implementation of FAS 150 because the Board will have an earlier and better understanding of the impact of its proposals on private companies.

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

The AICPA Task Force noted that 99.7 percent of the nation's incorporated businesses are private. It went on to report users such as lenders and equity investors, accountants, owners and financial managers of private companies reported that the current GAAP process and standards do not meet their financial reporting needs. It is clear that the needs of these stakeholders are not being met and this proposal will help address the problem.

The proposal, including the establishment of a committee and the hiring of staff dedicated to private company issues, will help provide a process that allows more direct and substantive input from private company constituents. To help ensure all stakeholders and types of entities that may be affected are represented, we suggest that representatives of the various types of private entities, including cooperatives, be included in the Committee. Cooperatives have a unique financial structure and features; cooperatives and the Committee would benefit from cooperative representation. There may be other distinct models that should also be represented on the Committee.

3. The FASB and AICPA believe that any differences in GAAP for private companies should be based on financial statement user needs and cost/benefit considerations. Do you agree?

We believe that differences in GAAP should be based on the needs of private company constituents, including users of private company financial statements. Included within this concept should be consideration of differences in the financial structures of certain types of private companies such as cooperatives that operate on an at-cost basis where it can be shown that proposals may have a different and measurable impact on such entities. There may be some differences based on the size of the private entity. We appreciate that the Small Business Advisory Committee advises on standards as they impact small businesses and we urge coordination between the SBAC and the Committee on private companies.

We agree that cost-benefit analyses will help standard setters determine and understand the impact of the standards on private companies and that cost-benefit considerations should be taken into account in determining whether differences in GAAP are needed for private companies. But the cost-benefit analyses should be based on some models or clearly delineated parameters to help guide the deliberation.

In some of the accounting proposals, the cost-benefit analyses have been more perfunctory than substantive and provide little insight or justification about the real costs and benefits of the proposal at issue. Cooperatives have reported increasing costs over the past few years associated with audit services and staff time and resources for education and implementation of the changes. For some standards, cooperatives do not perceive any benefit from the increased costs. And, financial managers face a difficult task when they have to explain or justify increasing costs to members and boards without being able to articulate the corresponding benefits.

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?

While compensation may be limited to reimbursement of expenses, resources may need to be deployed to provide for relevant expertise (if not available through FASB's current expertise). Some constituents may not be able to bear the burden of the cost of full participation. We hope that accommodations could be made to ensure participation from relevant stakeholders, e.g., through conference calls, webinars or, if needed, financial assistance with more than expenses. One idea would be to establish a fund to which participants who cannot afford to attend could apply for funding if their employer will not or cannot finance the participation or for other reasons.

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

The committee should be able to set its own agenda and priorities and we hope that there will be a process for FASB to incorporate those priorities into its agenda.

The process as outlined in paragraph 18 may limit the dialogue between FASB and the Committee. The process directs FASB to present standards or alternatives to the Committee and the Committee would provide comments and input on how those standards or alternatives affect private company financial statements. There may be instances, however, in which the Committee may want to propose an alternative or address a specific need that is not under discussion. A more open and interactive process between FASB and the Committee may enhance the Committee's deliberations as well as FASB's objectives.

In paragraph 17, the proposal states that the objective "is not to create a separate, new set of GAAP requirements for private companies." We urge FASB to remain open to possible recommendations from the Committee that may include different standards or a separate set of standards for private companies. It is clear that the role of the Committee is to advise and make recommendations. As standard setters, FASB may benefit from recommendations such as the need for separate GAAP or GAAP type standards even if the recommendations would not necessarily be adopted by FASB.

We understand that FASB has input and guidance from the Financial Accounting Standards Advisory Committee (FASAC), emerging Issues Task Force (EITF) and SBAC committees. We urge FASB to coordinate the work of the Committee for private companies with these other committees to ensure private company perspective and input into all phases of decision-making, including determining emerging issues and decisions about which projects to move forward.

Thank you again for taking this step to help improve the accounting standards setting process to address the needs of private companies. We look forward to working with you on this important proposal. We will work to help bring the specific concerns and needs of cooperatives to the standard setting process. Please call Mary Griffin on our staff at 202-383-5450 if you have any questions or need more information about cooperatives.

Sincerely,

A handwritten signature in cursive script that reads "Paul Hazen".

Paul Hazen
CEO