



SENT VIA ELECTRONIC MAIL commentletters@pcfr.org

August 15, 2006

Mr. Lawrence W. Smith
Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: FASB-AICPA Joint Exposure Draft.
(File Reference Nos. 1310-100)
*Enhancing the Financial Accounting and Reporting Standards-Setting
Process for Private Companies.*

Dear Mr. Smith:

The National Credit Union Administration (NCUA) is pleased to comment on the FASB-AICPA Joint Invitation to Comment on *Enhancing the Financial Accounting and Reporting Standards-Setting Process for Private Companies*.¹

NCUA appreciates the joint effort of the AICPA and the FASB to consider ways to improve, encourage and increase private company constituent input in the current standard-setting process. We agree with the project objective not to create a separate, new set of GAAP requirements for private companies. However, we do believe the FASB will benefit from an increased focus on the implementation impact of proposed standards on smaller private companies. Such a focus should help better balance the differing needs of users of both public and private company financial statements and could reduce some of the complexity of GAAP pronouncements.

¹ NCUA is an agency of the executive branch of the United States charged by Congress with regulating federally-insured credit unions. 12 U.S.C. §1752, *et seq.* Similar to other financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), credit union members' deposits are insured by the National Credit Union Share Insurance Fund (the Insurance Fund). NCUA is governed by a three-member Board appointed by the President and confirmed by the Senate.

We believe the FASB could mandate principles-based standards for both public and private companies resulting in “decision useful” information that has attributes of relevance and reliability without the current degree of complexity that necessitates subsequent FASB actions to issue additional rules-based interpretations, implementation guides, FSPs, etc. This proactive effort to more formally explore the impact of proposed financial reporting standards for smaller private organizations will certainly help provide better standards for all. Therefore, we support this FASB-AICPA joint effort and commitment to explore ways to enhance the value, transparency, and cost effectiveness of financial reporting for private companies.

NCUA is commenting on several issues listed in the joint FASB-AICPA Proposal, as presented below.

Changes to the FASB Standard-Setting Process

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

We believe the proposal outlined in paragraphs 16-29 would improve, encourage and increase private company constituent input in the current standard-setting process. We are hopeful the constituent input will translate into an improved accounting standard-setting process for private companies. Balancing the objective of determining whether differences should exist within the existing framework of financial accounting and reporting standards of private companies without creating a separate, new set of GAAP requirements for private companies will be the critical challenge.

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 are met?

We fully support improved efforts to factor into the standards-setting process the impact on smaller private organizations. A special group (“board”) within FASB with the mandate to more formally explore the impact of proposed financial reporting standards for smaller private organizations will certainly help provide better standards for all.

In the FASB’s effort to seek “decision useful” information within the conceptual framework, our experience is that the cost-benefit balance is often sacrificed as small private companies are mandated to obtain relevant and reliable measures at burdensome cost without a full evaluation by the FASB of whether such information meets the needs of users of private company financial reports. Additionally, we believe the FASB could mandate principles-based standards for both public and private companies without the current degree of complexity that necessitates subsequent FASB actions to issue additional rules-based interpretations, implementation guides, FSPs, etc. Compliance with many of the complex GAAP requirements can be an economic

barrier for smaller private companies (e.g., system changes, valuation services, etc.). Moreover, the existing standards are not written in a “plain English” style that lends itself to the understanding of any but the most knowledgeable and practiced companies. Therefore, we support improvements to increase private company constituent input in the current standard-setting process and, thus, this FASB-AICPA joint effort.

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?

We do not favor differences in GAAP for recognition and measurement between private and public companies. We do favor considering the impact of standards on private companies in such a way that the FASB may deliberate a particular standard for both public and private companies. We support assessing the financial reporting burden based on differences in user needs and cost-benefit consideration. At a minimum, available alternatives for private companies need to be explored. We favor the continued but measured use of deferred effective dates and the reduction or elimination of the certain disclosure requirements for private companies.

Committee to Promote Constituent Input

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?

As we review the three objectives of the Committee, we believe the time commitment and degree of expertise required would likely necessitate compensation. The current standards-setting process is accomplished by compensated individuals, many of whom have public company background and experience. Compensating committee members would help ensure they too can devote the necessary time and effort to representing private company constituents, and thus have a sufficient voice in the process.

In summary, we fully support FASB’s:

- Efforts to consider ways to improve, encourage and increase private company constituent input in the current standard-setting process.
- Project objective not to create a separate, new set of GAAP requirements for private companies.
- More purposeful study of the implementation impact of proposed financial reporting standards for smaller private organizations in light of user needs; a process that will help provide better standards for all.

- Greater exploration and consideration, during the standards-setting process, of the economic barriers created for smaller private companies when unnecessary complexity is introduced in GAAP standards.

Thank you for the opportunity to comment.

Sincerely,

JoAnn M. Johnson
Chairman
National Credit Union Administration

bcc: Reading File(s)
Board members
FFIEC Chief Accountants
AICPA FIEP
Kelbly

E&I/DRM/KK:kk
SSIC 4016

S:stafffolders/kk/wrk06/FASB-AICPA/Comment On Small Comp GAAP Initiative.doc