

August 10, 2006

Re: Comment on Joint Proposal between FASB
and AICPA
Enhancing the Financial Accounting and
Reporting Standard- Setting Process
for Private Companies

I have been in public accounting for over 20 years providing auditing, review, compilation, and consulting and tax services for privately held companies. During this time, the number of accounting and auditing pronouncements, standards and literature developed has been overwhelmingly voluminous as well as increasingly complex. The accounting profession refers to this phenomenon as "standards overload". It is also known in the accounting profession that many standards and pronouncements issued for accounting and auditing have been issued as reactive measures to events or issues. As a result, each time there is an accounting scandal that hits the headlines, the printing presses begin rolling and before long a proliferation of new accounting and auditing standards are issued. The fact that these scandals were caused by a few dishonest and unscrupulous people should not impact the entire accounting profession in the manner in which it has.

The needs of the financial statement users of private companies are different from those of publicly traded entities. Many recent pronouncements including SFAS 123(R) "Share Based Payment" and FIN 46(R) "Consolidation of Variable Interest Entities" clutter up the financial statements of private companies and tends to make them confusing and less meaningful. Also, as a result of complying with these increased standards, there also has been a tremendous increase in the number of checklists, work programs, memorandums, and other documentation etc., that are required to be completed by financial statement preparers, the cost which is borne (if we are lucky) by the client.

I believe that the FASB must consider the needs of the private company in its standard-setting process. The majority of privately held companies are closely held business that do not have a fully staffed accounting department never mind a CPA on staff to interpret their financial statements. Many banks and other third party users need/want information that they can understand and use in evaluating the entity. If additional information is needed by these users, it has been my experience that they either call the client or the CPA who prepared the financial statements and request this information.

It is important to remember that the third party users of privately held companies aren't waiting for Wall Street to announce quarterly earnings results to make decisions that affect the company. The stakeholders are far fewer and different for privately held entities than for publicly held entities. As a result, the financial statements and information provided to them should be better suited for their needs rather than applying a "one size fits all" methodology to both public and private companies. In order to accomplish this there needs to be differences related to the recognition, measurement, disclosure and presentation requirements between the public and private company sectors.

In response to the questions:

1. I believe the proposal contained in paragraphs 16-29 will improve the accounting standard setting process for small companies only if the committee is completely autonomous from the FASB and the committees' recommendations are taken seriously by the FASB.
2. In determining whether the proposed changes will help ensure that the financial reporting needs of constituents of private companies are met will depend on how effective the pronouncements issued by the committee are in addressing the needs of private companies. With the committee to be comprised of users, practitioners and owners of private companies it is a step in the right direction.
3. I agree that any differences in GAAP for private companies should be based on financial statement user needs and cost-benefit considerations. After all isn't that what we are trying to accomplish.

4. No. I believe the committee members should be reasonably compensated for their time and expertise. Token compensation will not attract the "best" qualified people to the committee. It will take talented and dedicated professionals to stay the course on this project to make meaningful changes in private company reporting. To attract high caliber professionals, they will need to be fairly compensated.
5. Yes, as I alluded to in #1 above, the committee should set its own agenda and priorities.

Thank you,

Joseph G. Favuzza, CPA