

TO: FINANCIAL ACCOUNTING STANDARDS BOARD (“FASB”),
AMERICAN INSTITUTE OF CPAs (“AICPA”)

RE: RESPONSE TO PROPOSAL ON ENHANCING THE FINANCIAL ACCOUNTING
AND REPORTING STANDARD SETTING PROCESS FOR PRIVATE COMPANIES

DATE AUGUST 14, 2006

Dear Sirs,

I have been a CPA since 1979 and have experience in both public accounting and in industry, where my experience to present has been in the environment of small publicly held companies. In reviewing this proposal, my comments are based on my personal experience and view of the issues and do not reflect those of any company or other organization of which I either work for or belong to.

The proposal notes the approach to standards setting in terms of information needs (using relevance, reliability, and cost/benefit as prime determinants), and further notes the FASB has historically limited any differences in accounting standards to disclosure requirements, and permitted no differences in measurement or recognition. The Proposal notes prior efforts of the FASB to gain feedback and participation by private company sector constituents in the standards setting process.

Several immediate comments to the Proposal include:

1. **THE SAME TRANSACTION SHOULD RESULT IN THE SAME RECOGNITION/ MEASUREMENT CRITERIA FOR EVERYONE.** I strongly support the concept that a specific set of transaction facts should result in the same accounting standard treatment as to recognition and measurement. This approach supports a standard accounting “language” that all users of financial statements should be able to rely from the standards setting process, irrespective of how ownership is structured.
2. **GOAL—TO CREATE OR NOT TO CREATE A NEW SET OF PRIVATE ACCOUNTING STANDARDS? WHICH IS IT?** Paragraph 17 says, “The objective of the change is not to create a separate, new set of GAAP requirements for private companies”. Paragraph 21 says “a new committee whose mission is to provide recommendations that will help the Board determine whether there should be differences in prospective and existing accounting standards for private companies”. These separately stated goals appear to be in conflict, unless you presume the Committee of 11 effectively limits itself to a very narrow range of issues. The objective in paragraph 21 provides open-ended potential review of all accounting standards (existing and prospective) with changes potential for a wide range of areas. If that happens, isn’t that creating a parallel “new” set of private company accounting standards alongside accounting standards for public companies?
3. **WHY IS THIS COMMITTEE ANY DIFFERENT FROM PAST ACTIONS BY THE FASB TO GAIN FEEDBACK?** Any action to improve the feedback relevant to standards setting process is a good step to take. It is not clear how this specific effort is any different from the various historical FASB efforts outlined in the proposal. It is different, if the ultimate goal of this Committee of 11 is to establish a broad set of “private company” accounting standards dramatically different from the present environment.

4. ALL COMPANIES OF SIMILAR SIZE HAVE THE SAME BASIC ISSUES IN APPLYING ACCOUNTING STANDARDS. The degree of complexity in an accounting standard and the relevance of incremental disclosures are shared commonly by all organizations, where private or public. If there is concern, then the actions of the FASB should address and review those concerns via feedback from all companies, whether publicly or privately owned. With micro-cap publicly held companies and similar sized privately owned companies, key external users of financial statements are often the same for both, and the issues of cost/benefit on applying accounting standards and incremental disclosure, are common to both. The FASB should address “Big GAAP” versus “Little GAAP” based on size, not ownership type. The Committee of 11 should be broadened to address the same issues relevant to accounting standard complexity and cost/benefits impacting all small/micro cap companies.
5. LIMIT ACCOUNTING STANDARD DIFFERENCES TO DISCLOSURE ONLY, AND ON A SELECTIVE BASIS. The FASB should affirm its conceptual framework to explicitly support the concept that the same measurement/ recognition criteria will apply to all equally in setting accounting standards. This action effectively limits any differences in accounting standards to disclosure issues only, based on either company size, or by virtue of non-profit or private ownership
6. ANY USER OF FINANCIAL STATEMENTS PRESENTED ON A “GAAP” BASIS, SHOULD BE ABLE TO RELY ON STANDARD APPLICATION OF COMMON RECOGNITION/MEASUREMENT CRITERIA, AND ACCOMPANYING DISLOSURES THAT ENABLE ANY USER TO FULLY AND FAIRLY UNDERSTAND AND TO EVALUATE THE FINANCIAL RESULTS AND POSITION PRESENTED. There are many varieties of financial statement users, and often, those users (in content and number) are dramatically different between in small company environments versus large company environments. This will be true whether ownership of a company is public or private in ownership. How can a Committee of 11 effectively translate the various user needs and application concerns across the broad spectrum of small and large companies, across industry/service sectors, and across and various forms of ownership found in the private company arena? How will the needs of large privately held company users and small privately held company users be reconciled in the quest to address cost effectiveness and relevance?

Based on my comments above, feedback on the Proposal Questions includes:

Do you believe the proposal contained in paragraphs 16-29 will improve the accounting standards-setting process?

Any effort to enlarge and engage feedback in the standards setting process is beneficial. I believe the right question to address is “Big” versus “Little” GAAP (generally accepted accounting principles) with regards to small/micro cap companies, regardless of their public or private ownership. I do not believe a broad move into creating “private company GAAP” improves the long term accounting environment for accountants, auditors, or financial statement users.

Do you believe that the proposed changes will help ensure that the financial reporting needs of constituents of private companies are met?

How can a committee comprised of 11 members hope to represent the broad spectrum of financial statement user needs and issues in the private company arena? What this approach ensures is that “big” company and “large” user issues will be represented; those of the broad mass of small and medium sized companies and users likely will not be.

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?

I concur, except that the issue is relevant to small versus big companies, not to private versus publicly owned companies. GAAP complexity and disclosure relevance and cost effectiveness should be the focus of concern on that level, not on private companies as a unique category. The extent of any differences should be limited to disclosure areas, not to recognition or measurement approaches.

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

This approach ensures that only the “big” entities will be heard and represented out of the private company universe and its related financial statement users. No small company or small CPA firm or small financial statement user constituency can effectively participate in a time intensive and continual effort on a pro bono basis. The cost of time invested in this process should be funded as well as any out of pocket expenses incurred on a 50/50 basis by the FASB and the AICPA. That action effectively puts both big and small participants on the same ability to be part of the Committee effort.

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

No. The FASB needs to reaffirm its commitment to the conceptual framework that ensures the same transaction is subject to the same measurement/recognition criteria across the board. Any private company issues should be limited to disclosure only issues, on a selective basis, and subject to discussion and pre-approval by the FASB before any further extended review effort by the Committee takes place. This ensures only the most relevant and commonly perceived areas will be undertaken by any extended Committee review effort. The end result should be to support constructive change, not extended debate and disappointment.

I appreciate the opportunity to review and provide comment to the Proposal and provide feedback in support of the FASB/AICPA efforts in the standard setting process.

Best Regards,

Gary L. Sandefur CPA