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Response to Invitation to Comment on No. 1310-100
*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*

I appreciate the opportunity to comment on this important proposal as it contains the way forward in solving the issue of whether private companies can report under standards different from those required of public companies.

In response to the specific questions posed in the Issues for Respondents section I offer the following:

1. I believe the proposal contained in paragraphs 16-29 will improve the accounting standard-setting process for private companies. I also believe the proposal could be improved.
2. I believe the proposal contained in paragraphs 16-29 will help ensure that the financial reporting needs of constituents of private companies will be met. I also believe that if certain other changes are included such assurance will be enhanced.
3. I agree that GAAP for private companies should be based on financial statement user needs and cost-benefit considerations. I also think that consideration should be given to relative size of private companies as part of the needs and cost-benefit considerations. For example, the GASB used a phase in approach to GASB 34 based on the financial size of the various

state and local governments. In doing so, recognition was given to three clearly different sizes of government referring to them as Phases 1, 2, and 3. Each group implemented GASB 34 on a different year-end over a period of three years. For those governments in Phase 3 not all GASB 34 requirements had to be complied with. Such an approach could be taken with private companies when the question of application of GAAP is considered. Further, I think the notion of financial statement preparer materiality should be considered. Just because a private company enters a transaction that might have specific and difficult to present GAAP reporting or disclosure requirements, unless the transaction is material to the financial statements, reporting and disclosure should not be required of private companies. Another consideration would be to allow private companies of a certain size to use abbreviated disclosures instead of disclosing the more detailed and specific FASB required information. Such private companies would report a brief description of the transaction and note if more detailed information, or the FASB required specific information, is needed by a financial statement user that user should contact the company for such additional information. Preparers of private company financial statements should always exercise their professional judgment, guided by the relative FASB and materiality, when determining how and when to apply specific GAAP reporting and disclosure requirements to their financial statements. I would expect that the proposed committee would use their discussion and position papers to remind preparers of this obligation and opportunity when preparing financial statements of private companies.

4. I do not agree that the members of the proposed committee should not be compensated. I refer the FASB and AICPA to the AICPA Auditing Standards Board member compensation scheme for their consideration. While it may be appropriate to compensate the chairman on a salary-type basis - if the chairman is to be the manager of the committee effort - I think that compensating all members for their time and expenses enhances the member's opportunity to participate at

the expected level of diligence. Without a compensation feature only members from firms and companies that can afford to let their employees participate will be represented. Members of the ASB represent literally all sizes of firms and companies. Members from the smallest firms, whose participation may not have been possible without the compensation allowance available, make significant contributions and bring experiences and knowledge to the audit standard-setting effort that their bigger firm colleagues do not. To compensate the members demonstrates a commitment to eliminate all barriers to participation that may exist in the effort to bring the broadest possible experiences to bear on issues that will be decided by the proposed committee. It will also indicate that GAAP is for every private company financial statement preparer and auditor to consider. To not remove all possible barriers to representation on the proposed committee may be interpreted as a signal that the smallest of firms and companies should look to OCBOA financial statements and special audit reports as the only solution to their problems in applying GAAP to financial statements they are associated with.

5. I agree that the committee should set its agenda without oversight or supervision.

Paragraph 23 addresses the committee representation. While I agree that the proposed membership will provide for broad experiences in financial accounting and reporting, it falls short of the ideal size and representation required. I again refer the FASB and AICPA to the current make up of the Auditing Standards Board. The ASB was expanded to 19 members and now includes members with the specific experience of having served on a state board of accountancy. State boards of accountancy have the statutory responsibility for accounting, auditing and quality control standards. Members who serve on state boards of accountancy develop a keen sense of the public interest as a result of such service. Persons with the specific experience of having been a member of a state board of accountancy, in addition to being a CPA with financial accounting and reporting experience, will bring unique experiences and competencies

to the committee that will not be present in the membership as now proposed. Therefore, I suggest that the committee representation be expanded to include at least four members with a background of service on a state board of accountancy and that the additional members be proposed by the National Association of State Boards of Accountancy (NASBA).

I wholeheartedly endorse the goals of the proposal to enhance the value, transparency and cost effectiveness of financial reporting for private companies. I hope you will consider my comments and suggestions in the positive spirit in which they are offered. If you have any questions concerning my comments or suggestions please call or email.

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