



CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION

The Source and Resource for Construction Financial Professionals



August 15, 2006

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1310-100

The Construction Financial Management Association (CFMA) presents the following response to the Invitation to Comment on “Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies,” File Reference #1310-100.

Founded in 1981, CFMA has 89 chapters across the U.S. and more than 7,000 members. Private companies employ many of these members. CFMA General Members are CFOs, treasurers, controllers, accountants, financial managers, and those with a financial responsibility for their companies. Associate Members include bankers, insurance and surety bond agents, attorneys, and others who serve the construction industry.

CFMA represents the professionals who specialize in financial reporting within the construction industry, and CFMA is particularly qualified to supply feedback to FASB and the AICPA as they work to establish valuable, transparent, and cost-effective accounting standards for private companies. We have chosen to address each question in the Invitation to Comment and provide additional recommendations where appropriate.

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

CFMA applauds the work of FASB and the AICPA on this very important project. Private companies currently labor beneath the burden of requirements designed to enhance public company reporting. Empowering a group of experts to review and recommend changes that accommodate the unique needs of private companies is a substantial step in the right direction.

We consider the formation of the proposed Committee essential to ensuring that the needs of private companies are met. While FASB has protocols to obtain feedback relative to proposed accounting rules, these protocols are not sufficient to obtain expert opinions early in the standard setting process regarding private company financial reporting.

CFMA recently surveyed our membership on this topic, and the overwhelming majority of survey respondents support changes to the existing system. Ideally, these changes will result in a deliberative due process focused squarely on the needs of private companies and their financial statement users.

To facilitate the most effective Committee possible, we believe its members must be carefully chosen. CFMA recommends that:

1. All members of the Committee have substantial experience working in, or providing services to, private companies. A Committee member without a strong background in private company financial reporting would probably be unable to make recommendations that best represent the needs of private companies.

Also, there should not be a requirement that a minimum number of Committee members have public company financial reporting experience. To impose an artificial standard for admission potentially excludes the most qualified individuals.

2. The Committee members should reflect all major industries, perhaps based on each industry's contribution to the Gross Domestic Product (GDP). This will help ensure broad representation and a diverse Committee. Further, we specifically request that at least one position be reserved to represent the construction industry.
3. The selection of Committee members should be based on pre-determined qualifications that are clearly outlined and exposed for comment. In addition, the FASB and the AICPA should expressly commit to a good faith requirement to follow the recommended nominations of major industry groups as long as those individuals fulfill the requirements to serve.

Question 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?

The proposed changes are a substantial first step toward more useful and relevant reporting standards for private companies, provided that:

1. The Committee is given adequate autonomy and authority. Again, our members are overwhelmingly in favor of changes to better meet the needs of private companies and their financial statement users. However, our members realize that, in many cases, there may be no need for a difference in the reporting standards for private and public companies.
2. The Committee has adequate funds to carry out its mission. Until the Committee is seated and has planned its activities, setting a budget is very difficult. However, funding should not limit the important and necessary work of the Committee.

Finally, we believe that FASB should have a presumptive obligation to follow the Committee's recommendations, and that any decision that significantly varies from the Committee's recommendations should be documented and adequately explained in final accounting and financial reporting standards.

Question 3: The FASB and the AICPA believe that any differences in generally accepted accounting principals (GAAP) for private companies should be based on financial statement user needs and cost benefit considerations. Do you agree?

CFMA believes that these two criteria should drive the Committee's recommendations. We also ask that the Committee consider the relevance of accounting principals to private industry.

Often, relevance dovetails with user needs and cost-benefit issues. For example, FIN 46 provides little added value to the users of private company financial statements, even though compliance requires significant resources. By assessing each pronouncement's relevance to private companies, the Committee will be able to make a clearer determination regarding user needs and cost-benefit considerations.

Also, in certain circumstances, the size of the financial reporting entity should be considered as well, similar to the \$100 million threshold in FASB Statement 107.

Question 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?

There are fundamental differences in the overhead structures of many public and private companies. Because of their size, public companies can allow highly qualified employees to participate in time-intensive volunteer projects. However, few private companies can absorb the associated overhead.

We believe that Committee members, or their companies, should be compensated for the time spent on Committee activities. This approach would provide a larger pool of capable volunteers, create more diversity within the Committee, and promote a higher level of commitment. In addition, compensation should be set at a rate that approximates the earnings standards of each Committee member's given occupation, and be based on the anticipated time required to fully participate.

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

Definitely. Once the Committee has an adequate budget and support staff, it should set its own agenda and priorities. Specifically, it is essential that, as proposed, the Committee have complete discretion to revisit the application of existing accounting and financial reporting standards to private companies.

Conclusion

CFMA supports this initiative. If it is carefully structured, adequately supported, and autonomous, this Committee will lead to more efficient and cost-effective financial reporting for private companies and provide more relevant information to the users of these financial statements.

If there are questions regarding our position, please contact Lynn Mitchell, Co-Chair, Emerging Issues Subcommittee at 609-452-8000 (ext. 240).

Sincerely,

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