



August 15, 2006

Technical Director—File Reference 1310-100
Financial Accounting Standards Board and American Institute of CPAs

Re: File Reference 1310-100 - Invitation to Comment: “Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies”

Thank you for the opportunity to comment on the private company financial reporting process proposed by the FASB and the AICPA. A task force of members of The Ohio Society of CPAs reviewed the proposal and advances the following comments for your consideration. The task force was comprised of CPAs in public and private practice, including representatives from both large and small CPA firms, and members in corporate practice from both public and privately held entities.

General Comments:

1. Implications for Conceptual Framework

The proposal suggests that differences in accounting standards at the measurement and recognition level, not just reporting and disclosure, may be encountered by the new committee. A consideration of differential measurement and recognition may bring into question fundamental concepts in the conceptual framework.

While most core accounting concepts in the conceptual framework should be consistent across all entities, part of the new committee’s charge should include reviewing the conceptual framework and advancing recommendations about whether there are characteristics of measurement, recognition and disclosure that are relevant to users of public company information that are not relevant to users of private company financial information, as these conclusions will be relevant to the Board’s and the committee’s consideration of differential accounting requirements in the future.

2. Expanding Differential Accounting Rules

The implementation of a process to improve feedback on implications of standards setting for privately-held entities is positive. However, even though the language of the proposal is clear that two sets of GAAP are not being created, in substance, unless the changes initiated by this process are very

535 Metro Place South
PO Box 1810
Dublin OH 43017-7810

614.764.2727
800.686.2727
FAX: 614.764.5880

Member Service Center:
614.791.1212
Toll Free: 888.959.1212

www.ohioscpa.com

narrow, the inclusion of differential accounting rules within standards effectively does create two sets of standards (last sentence, paragraph 17.)

Implications of differential rules for public and private entities within standards are the same as developing two separate sets of standards:

- Standards overload becomes an increasing problem as practitioners have dual requirements to monitor
- Accounting education is complicated by additional differences in standards
- Quality assurance challenges will arise within firms ensuring that the correct standards are being applied
- Do we create two “classes” of accounting rules in public perception?
- Will there be reporting implications to users to inform them which standards are being applied? (Since the differential accounting treatment is not a GAAP exception, how will the election be made transparent to the user?)

These issues require further deliberation and guidance.

3. Educating the User Community

Implementation of this proposal must include a plan for adequate education of the user community. For users who currently accept financial information prepared under other comprehensive bases of accounting, especially for micro entities, will knowledge of GAAP for private companies cause users to begin requiring the use of GAAP, at less usefulness and greater cost to the smallest of businesses? An educational effort should be undertaken to reduce this likelihood.

4. Basis for Differentiation

Public versus private is not the only division for which differential accounting treatment may be advisable, and this process should insure that considerations of various committees are coordinated, rather than conducted independently. Many considerations that would affect the relevance of accounting information include the degree of separation of management and ownership, different types of capital, and organization size.

At a minimum, a formal liaison relationship should be established between the new committee and existing bodies such as the Small Business Advisory Committee to accomplish agenda coordination, as many accounting relevance questions will have size of entity, as well as ownership and financing considerations.

5. Composition of the Committee

Significant consideration must be given to the composition of the 11 member committee. It is crucial that smaller private entities be adequately represented as well as larger entities, and that the committee include candidates from both private and publicly-held businesses. Representation should also be included from businesses with different types of ownership and capital investment.

Given that consideration, 11 members may not be sufficient to represent all interested constituencies. The 11 member committee could be sufficient to provide broad oversight, but should also be authorized to appoint ad hoc committees on specific issues that may require specialized expertise.

6. Committee Scope

The proposal should be more specific regarding the scope of the committee's charge: e.g., are they to review every statement prior to its issuance, or may the body be selective?

7. Committee Oversight

In paragraph 28, has it been determined who will be responsible for reviewing the committee's operations (e.g. Board and AICPA staff? Will the AICPA Council or FASB play a role directly?)

Specific Questions:

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

Response: A process to provide improved and additional feedback to the standards-setting process regarding the implications of standards to private companies is important and desirable.

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?

Response: The proposal provides an improved mechanism for private constituency concerns to be heard, providing greater opportunity for needs to be addressed.

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?

Response: Both are important criteria for all standard-setting, but an additional criteria should be added of reducing complexity. Not only should accounting information be as transparent as possible; accounting standards should be as transparent as possible to reduce the inordinate burden borne by smaller companies in general.

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?

Response: There are pros and cons to this recommendation. For committee members to take the responsibility seriously and to possess a sufficient degree of current proficiency, compensation may be preferred. It is likely that the time commitment required will be much greater than the required number of meetings proposed. In addition, many private companies would need to be of significant size to afford to make a person available for this commitment, raising a concern that larger entities would be disproportionately represented.

On the other side, should compensation be provided, candidates may not join the committee for the desired reasons. If the FASB and AICPA provide dedicated resources to the initiative, compensation may not be critical.

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

Response: It would be difficult for any eleven members to adequately represent the interests of all constituencies in establishing priorities, especially for a review of existing standards. An approach should be developed to provide a pipeline for information to come onto the committee's agenda, including methods for constituents to submit recommendations, and receive reporting/accountability regarding issues submitted and accepted.

If you have any questions about the deliberations of the task force, please contact Joel Karg, CPA, task force member, at 614-764-2008 or jkarg@steemer.com.

Sincerely,

Private Company Financial Reporting Task Force
The Ohio Society of CPAs