

August 15, 2006

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. 1310-100 – Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies

Dear Mr. Smith:

PricewaterhouseCoopers appreciates the opportunity to respond to the Financial Accounting Standards Board (“Board” or “FASB”) and the American Institute of Certified Public Accountants’ (“AICPA”) Invitation to Comment, “Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies” (“ITC”).

We do not support the proposed changes to the financial accounting and reporting standard-setting process. First, we believe the proposed changes will promote accounting guidance for private companies that diverges from the basic principles that should underlie all accounting guidance. In our view, generally accepted accounting principles (“GAAP”) should be based on fundamental and consistent recognition and measurement concepts and we see no basis to support differences merely because an entity is nonpublic.

Second, we believe such changes will have the potential to increase the complexity of prospective and existing accounting standards, depending on how differing guidance for private companies is set out in each standard. It also could confuse users who are comparing financial statements of two companies that are similar (e.g., in the same business, in the same industry, of similar size) with the only difference being that one is private and the other public.

Third, we are concerned that the proposal would promote the proliferation of exceptions and will result in standards for private companies that are less principles-based. We are further concerned that the additional time required to deliberate and modify accounting standards in favor of private companies, including considering the recommendations of the proposed committee, will complicate and lengthen the standard-setting process and divert the Board’s resources from making critical improvements to existing standards and issuing new ones on a timely basis that will benefit the capital markets.

In our view, today's standards allow private companies that do not enter into complex transactions to account for those transactions with minimal complexity. However, we believe that all companies (regardless of size or public status) that enter into complex transactions, that might have complex accounting implications, should account for the recognition and measurement of those transactions similarly. One set of recognition and measurement standards should provide users of the financial statements with a complete and comparable understanding of the economics of the transactions. We strongly support a single set of accounting rules for purposes of recognition and measurement and we acknowledge and support the benefit of providing differences in the transition, disclosure, and effective date requirements for private companies based upon cost-benefit considerations.

We recognize and strongly support the need to enhance the value, transparency and cost effectiveness of financial reporting and to obtain constituent input in the standard-setting process. We observe, however, that these needs are not unique to private companies and opportunities to obtain constituent input currently exist in today's standard-setting process. We believe the FASB and AICPA should focus their resources on simplifying and improving financial accounting and reporting standards for all companies regardless of their public or nonpublic status. Consider the value that could be created for all constituents, if the resources that may have been used to implement the proposed changes instead were focused on achieving robust field testing of newly proposed standards early in the standard-setting process. Such a robust process would certainly help facilitate the smooth implementation of new standards and improve the operability of those standards for all constituents including private companies.

The proposal does not detail the specific considerations that contributed to the decision to propose changes to the standard-setting process for private companies, including the sponsorship of a committee dedicated to increasing private company constituent input in the standard-setting process. We have observed that the level of support for differential financial accounting and reporting standards varies among users of private company financial reporting information. Before the Board and the AICPA decide to move forward with this proposal, we recommend that they obtain input from users of private company financial statements that clearly supports the proposal and articulate that support in any future exposure draft on this subject so that all constituents can consider it.

We believe the Board should continue to have the flexibility to explicitly decide on a case-by-case basis, whether differences in transition, disclosure, and effective date requirements for private companies need to be made in specific standards. To achieve full consideration of appropriate alternatives in this regard, we do not object to the Board's proposal to dedicate limited FASB staff resources to seeking input specifically from those involved in financial reporting for private companies. This input could assist the Board in articulating its logic supporting transition, disclosure, and effective date alternatives for private companies. We encourage the Board to continue to obtain the views of private companies through established resources such as the Small Business Advisory Committee.



In summary, we believe that reducing the complexity of financial accounting and reporting standards for all constituents will sufficiently address the concerns of preparers and users of private company financial reporting information, while preserving the integrity, value, and comparability of GAAP for all users of that information.

In the attachment to this letter we have provided our answers to the questions posed in the ITC and respectfully submit them for consideration.

If you would like to discuss any of these comments further, please contact Ray Beier (973-236-7440) or Marvin (Bud) Thomas (973-236-4989).

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

Attachment A

FASB and AICPA Joint Proposal: Enhancing the Financial and Reporting Standard-Setting Process for Private Companies

PricewaterhouseCoopers Responses to Specific Questions Described in the “Invitation to Comment”

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

We believe the proposed changes to the financial accounting and reporting standard-setting process for private companies will not improve but rather will complicate the standard-setting process. In addition, although the Board and the AICPA have indicated in this ITC that the objective is not to create more than one set of GAAP requirements, we believe that if recognition and measurement differences are created, differential accounting standards will emerge. If "alternatives for private companies" are allowed, as indicated in paragraph 18(b), we do not understand how differential accounting will not result. We offer the following additional observations regarding the proposed changes to the standard-setting process:

- Additional time will be required to deliberate and modify accounting standards, which may divert the Board’s resources away from critical improvements to existing pronouncements and issuing new ones. In addition, while providing a conduit for private companies to provide input in the standard-setting process is important, the proposed changes may give preferential treatment and unequal representation to one constituency in the capital markets.
- One unintended consequence of the proposed changes to the standard-setting process for private companies is the potential to make it more difficult for private companies to gain access to the public markets because they have used different accounting standards than public companies. This could (1) discourage external investment in private companies, (2) extend the exit strategy for companies as they attempt to gain access to the public markets, and (3) create extensive first time adoption issues as private companies adopt public company standards. The proposed changes may also lead to an increase in the disparity of financial reporting requirements between public and private companies, which we believe will have an adverse impact on users’ understanding of financial reporting information.

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?

We believe the financial reporting needs of constituents of private companies that prepare GAAP financial statements are not substantively different from the financial reporting needs of the constituents of public companies. However, even if the financial reporting needs of the constituents of private companies are ultimately determined to be substantively different than the needs of constituents of public companies, the proposed changes would, in our view, hamper the Board's ability to focus on simplification, recently announced critical projects, and revisions to existing accounting standards for all constituents.

We believe the FASB and AICPA should focus their resources on reducing the complexity of accounting standards and enhancing the value, transparency, and cost effectiveness of financial reporting for all entities regardless of whether they are public or private companies. To strike an appropriate balance, we recommend the following actions to (1) improve the process for determining whether differences for private companies are needed in the transition, disclosure, and effective date provisions of prospective and existing standards and (2) increase private company constituent input in the standard-setting process:

- Dedicating limited FASB resources to improving the financial accounting and reporting standards for all constituents but, perhaps through liaisons between Board and staff members and key private company groups, developing transition, disclosure, and effective date alternatives for private companies based on user needs and cost-benefit considerations.
- Seeking input from private company constituents during the standard-setting process through FASB staff reach-out activities and other established resources such as the Small Business Advisory Committee.
- Seeking out both public and private companies to be involved in early, robust field testing of proposed standards to facilitate smooth implementation and improve the operability of new standards.

Question 3 – The FASB and 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?

As mentioned previously in our cover letter, we support a single set of GAAP requirements for recognition and measurement purposes. However, we recognize that private companies may benefit from differences in transition, disclosure, and effective dates. We agree with the FASB and AICPA that any differences in transition, disclosure, and effective dates for private companies should be based on financial statement user needs and cost-benefit considerations.

In addition, as indicated in the ITC, previous studies have indicated that support for substantive differences in recognition and measurement for private companies is limited. The FASB and AICPA acknowledge in the ITC that the proposed changes to the standard-setting process were

prompted in part by the results of a recent study conducted by the AICPA. The results of that study indicated that the level of support for differences in private company financial reporting varied among different constituencies. Before concluding that there is sufficient support for the proposed changes, the Board and AICPA should articulate that support in any future exposure draft on this subject so that all constituents can consider it.

Question 4 – The FASB and AICPA believe that members of the committee (except the chair) should not be compensated beyond a reasonable reimbursement of expenses. Do you agree?

We do not believe sponsoring a committee to increase private company constituent input will improve the standard-setting process. Consequently, we believe an appropriate use of FASB and AICPA resources is to allocate available funding to improve accounting standards in general and to pursue the overall simplification of financial accounting and reporting standards as opposed to bi-furcating the needs of public-nonpublic companies. An equivalent amount of FASB and AICPA resources should be dedicated to simplifying and improving financial accounting and reporting standards for all constituents.

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

While we encourage and support open communication during the standard-setting process, we are not supportive of the creation of the committee proposed in the ITC. We are concerned that the lack of clear, concise guidelines and the planned level of autonomy granted the committee may complicate, politicize and fundamentally change the standard-setting process, which may result in the creation of a separate, new set of GAAP requirements for private companies.