

August 14, 2006

Ms. Susan Bielstein  
Director, Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Invitation to Comment, *Enhancing the Financial Accounting and Reporting  
Standard-Setting Process for Private Companies*  
File Reference Number 1310-100**

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the above-referenced Invitation to Comment (the ITC), which is a joint proposal by the Financial Accounting Standards Board (FASB or the Board) and the American Institute of Certified Public Accountants (AICPA). We recognize that various users of financial statements may have different informational needs based on various factors, including the size and ownership structure of entities. We also recognize that the cost/benefit tradeoff of new accounting standards may affect private companies and the users of their financial statements in a different manner than public enterprises and users of their financial statements. As a result, we support efforts to improve the Board's ability to obtain the appropriate input necessary to understand the effects on private companies of alternatives being considered by the Board in arriving at decisions consistent with the Board's conceptual framework. We generally believe the formation of the committee discussed in the ITC along with the other proposed changes would help improve the transparency of the standard setting process, including the receipt of quality input. We agree with the process changes described in paragraphs 18 and 19 of the ITC as appropriate actions for the Board to undertake to obtain additional input and to consider more carefully the effects of its standard-setting decisions on private companies and users of their financial statements.

However, it is unclear to us whether the committee discussed in paragraph 21 of the ITC will be responsible for developing recommendations to change existing GAAP. We read the ITC to indicate that the objective of the proposed changes should not be to create a new, separate set of GAAP requirements for private companies. We fully agree with that objective. However, the ITC states that one of the objectives of the committee is to make formal recommendations to the FASB as agenda requests for changes to existing standards. The need for change in certain accounting topics may be top of mind for some entities and constituencies of the Board yet not a high priority for others. As a result, the committee might be making recommendations to the Board for agenda topics that might not be embraced as a high priority by all of the Board's various constituents. The Board will need to evaluate such requests against other demands on the Board's time and resources

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to determine the appropriateness of pursuing certain agenda topics at certain times. We would hope though that the Board would not pursue different standard-setting conclusions for different sets of constituents. Accommodations can be made in new standards to mitigate the burden on private companies (for example, delayed implementation dates), but we believe that recognition and measurement should be consistent between public and private enterprises.

We generally believe that there should not be differences in the accounting for similar economic transactions and events between enterprises of different sizes or with different ownership characteristics, and we are concerned that the results of the efforts of the committee could lead to an outcome the Board has stated it does not wish to achieve. While we believe recommendations to make the accounting and disclosure models more consistent and, therefore, more understandable, are beneficial, we believe those efforts should be part of the Board's codification and simplification project, in order to benefit both public and private companies.

While we believe the Board should not set the agenda of the committee, we believe further clarity is needed on the committee's objectives and the role it is expected to play in the standard-setting process. We believe that to make recommendations to improve the quality of accounting standards, the committee should begin by further determining the specific informational needs of users of financial statements of private companies. The AICPA study referenced in paragraph 4 of the ITC could be an appropriate starting point. The AICPA has stated that external stakeholders (primarily lenders/creditors, equity investors, and sureties) are typically the primary consumers of general purpose private company financial statements. We encourage the committee to study the informational needs of these users of private company financial statements in order to better understand whether those users perceive their needs to be similar to decision makers of public companies.

After the needs of users of private companies' financial statements have been determined, we believe the committee should establish a basis with which to perform a cost-benefit analysis, and that basis should be reviewed with the Board. We recognize that the costs borne by private companies to comply with GAAP in some cases may outweigh the related information benefits provided to users of private companies' financial statements, but we also believe that these users highly value the consistency and comparability of GAAP reporting. If the Board (rather than the market) were to identify whether differences between public and private company reporting are appropriate, we believe the basis for that decision should be clear.

We agree that the members of the committee (except the chair) should not be compensated beyond a reasonable reimbursement of expenses. We believe it is important that the committee's representation be balanced to enable the committee to consider different perspectives and to be able to reach a broad base of constituents.

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In conjunction with this proposal, we encourage the Board and the committee to closely monitor the IASB's progress on its project on accounting standards for small and medium-sized entities.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

*Ernst & Young LLP*