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Technical Director – File Reference 1310-100  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Sir or Madam:

The Independent Community Bankers of America<sup>1</sup> (ICBA) welcomes the opportunity to comment on the joint proposal by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies*.

#### **Summary of ICBA's Views**

ICBA supports the joint proposal and the efforts of the FASB and the AICPA to look at ways to enhance the financial accounting and reporting standard-setting process for private companies. The majority of ICBA membership consists of community banks that are not public companies. Also, many of the customers served by ICBA members are private companies. Thus community banks are frequent users of private company financial reports.

In paragraph 17, the document states that the objective of the change is not to create a separate, new set of GAAP requirements for private companies. ICBA agrees that there should only be one set of GAAP requirements to ensure comparability across the business community. However, we believe that there is great merit in looking at whether

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<sup>1</sup> *The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

*With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than \$876 billion in assets \$692 billion in deposits, and more than \$589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).*

all aspects of accounting and disclosure standards are necessary for all companies, particularly as accounting and auditing costs are increasing due to the Sarbanes-Oxley Act.

### **Background**

The FASB and the AICPA state that they recognize the need to carefully evaluate whether financial reporting standards meet the needs of users of private company financial reports and whether changes can be implemented by private companies in a cost-effective manner. Both organizations state that they are committed to exploring ways to enhance the value, transparency, and cost effectiveness of financial reporting for private companies. They state that this proposal further reflects the mission of the FASB as the standard setter in the United States to establish and improve standards for financial accounting and reporting for both public and private companies.

The document proposes (1) to make certain improvements to the FASB's current processes for determining whether differences are needed in prospective and existing accounting standards for private company financial reporting and (2) to sponsor a committee designed to increase private company constituent input in the standard-setting process. In assessing the need for differences for private companies in recognition, measurement, disclosure, and presentation, the FASB will consider the needs of users of financial statements as well as cost-benefit considerations.

The FASB and the AICPA state that they recognize that compliance with GAAP standards for many for-profit private companies is a choice rather than a requirement because private companies can often control who receives their financial information. In many cases, a private company can negotiate with the parties who receive their financial information the type of information provided, the form in which the information is provided, and any disparity from GAAP requirements. Some private companies may comply with GAAP at the request of current or potential lenders, suppliers, customers, or other contracting parties or at the request of state regulators. Other private companies may comply with GAAP because they are funded by venture capital firms with the goal of becoming a public entity. Presumably, the decision by one or more of those parties to require that the financial reports of a private company comply with GAAP instead of another basis of accounting is dictated by the perception of the quality and acceptance of GAAP versus the other available reporting alternatives. Therefore, the FASB and the AICPA recognize the continuing need to ensure that the accounting standards applicable to private companies consider the input of the users, preparers, and auditors of financial reports of private companies.

### **ICBA's Response to Questions Contained in the Proposal**

The proposal contains several questions for comment:

- 1. Do you believe the proposal contained in paragraphs 16-20 will improve the accounting standard-setting process for private companies?**

ICBA supports the proposal as contained in paragraphs 16-20. ICBA welcomes efforts by the FASB and AICPA to take a closer look at how private companies are affected by proposed new accounting standards and guidance and by changes to existing standards, including the potential for differences in recognition, measurement, disclosure or transition and effective date. In some instances, there will be no need to accommodate private companies differently as compared to public companies; in other cases there may be legitimate reasons to do so.

We also highly encourage the FASB and the AICPA in their efforts to reach out to preparers, users, and auditors of private company financial statements to ensure there is a full understanding of the effect of accounting alternatives and of standard-setting activities on private companies. Clearly, both the FASB and the AICPA work closely with the Securities and Exchange Commission and publicly traded companies and their auditors and users of financial statements, so outreach efforts related to private companies simply completes the picture. This is particularly important as the cost of being a public company increases due to costs related to the Sarbanes-Oxley Act, causing companies to more closely consider remaining or going private.

**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?**

ICBA supports the creation of a new committee whose mission is to provide recommendations that will help the FASB determine whether there should be differences in prospective and existing accounting standards for private companies. Recommendations of the committee will be based on user needs and cost-benefit considerations. In our view, the relatively new Small Business Advisory Committee has been a success, providing a new opportunity for dialogue between the FASB and representatives of the small business community. We believe that this committee can serve as an important resource and give the FASB a perspective that will be useful in its work. In our view, it is appropriate that the committee follow the FASB's open public due process and make formal recommendations.

We also support the FASB's plan to hire and assign staff with private company financial and accounting and reporting experience to current and future projects. We also urge the FASB, when possible to appoint small business representatives to the Financial Accounting Standards Advisory Council and to the Emerging Issues Task Force and other projects and task forces and working groups to ensure that the view points of this constituency are heard.

**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?**

ICBA agrees that user needs and cost-benefit considerations should be the basis for any differences in GAAP for private companies. We also believe, as with other standards

considerations, there should be a practicability consideration as this may be particularly important for smaller companies that are often private.

**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?**

ICBA believes that there are many interested parties that would be willing to undertake this effort without compensation other than reimbursement of expenses, assuming that the workload is reasonable for a “volunteer.” However, it would be appropriate for this committee to have members from small private companies that have limited staff resources and should the workload be overly burdensome or require significant time away from their business, they would need some level of compensation for participating in meetings.

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

We believe it is reasonable that the committee set its own agenda, though it may be useful if the FASB and the AICPA give it some guidance, at least initially as to matters that private companies have frequently raised as issues. Also, there should be coordination between the committee’s agenda and the current project work of the AICPA and the FASB to ensure that the committee’s views are fully integrated in the accounting standard setting process.

Again, ICBA supports the efforts of the FASB and the AICPA to improve communications with private companies in the accounting standards setting process.

If you would like to discuss our view further, please contact the undersigned at 800-659-8111 or [ann.grochala@icba.org](mailto:ann.grochala@icba.org).

Sincerely,



Ann M. Grochala  
Director, Lending and Accounting Policy