

SAMUEL A. DERIEUX

July 14, 2006

Technical Director - File Reference 1310-5116
Financial Accounting Standards Board
P O Box 5116
Norwalk, Connecticut 06856-5116

Re: Enhancing the Financial Accounting
and Reporting Standard-Setting Process
for Private Companies

This is in response to your invitation to comment noted above. The following pages will have comments related to the questions listed under ISSUES FOR RESPONDENTS and on specific parts of the invitation.

It is important that the final form of this joint proposal make it clear that the FASB has accepted the conclusions of the Castellano Study that there are circumstances under which the reporting standards for private companies should differ from those of public companies. For example, clarification is needed in the following sentence from paragraph 17.

These changes will assist the Board in determining whether differences should exist within the existing framework of financial accounting and reporting for private companies.

A reader could infer that the Board has not yet determined whether any differences should exist whereas the sentence is probably referring to determining whether differences should exist with respect to individual standards.

Thank you for the opportunity of commenting on this important subject.

Sincerely,

Samuel A. Derieux, CPA
Former Chairman of the Board of AICPA
Former FAF Trustee
Former FASAC member

Answers To
Specific Questions Suggested
in the
Invitation to Comment

1. The proposed structure does have the potential for improving the accounting standards setting process for private companies. Whether or not the standards will actually be improved will depend entirely on the degree of commitment by the Board to assuring that all financial accounting standards applicable to private companies are necessary and appropriate.
2. I agree that user needs and cost-benefit considerations must be the basis for determining GAAP for private companies. Particular attention must be given to the absence of a need. For example, public companies are constantly being evaluated by the market, but the need for evaluation of a private company normally happens infrequently. For that reason, standards based on fair value of assets for which there is no active market are not useful for private companies. On those occasions when a user needs an evaluation, he can call for one. No evaluation cost will be incurred unless there is a specific need.
3. I agree that only the part time chairman should be compensated and that the chairman and members must be reimbursed for reasonable expenses. If it proves difficult to recruit members from small entities and small firms, the situation can be revisited.
4. The committee should set its own agenda and priorities. It is important that it should be independent of the FASB and FASB staff. That independence should not preclude a close working relationship.

Other Comments

Paragraph 2 of the introduction is somewhat misleading. Not all earlier studies concluded that there should be no differences for private companies. Over the past 30 years, there have been several calls for differential standards. It is also inaccurate to say that prior studies have indicated that "there should not be substantive differences in recognition, measurement, or disclosure solely based on whether a company is privately or publicly held". Disclosure of earnings per share is required of public companies and not of private ones. It has also been well established that disclosures may be different based on the characteristics of companies.

Paragraph 2 of the introduction gives "reasons frequently cited in opposition to differences" but gives no reasons in favor of differences. Readers may conclude that this indicates a bias against differences.

Paragraph 2.a. gives a conclusion rather than a reason.

Paragraph 23 states that the selection of committee members should ensure equal representation of significant constituent groups. Effective representation is important, but it will be difficult or impossible to determine what constitutes equal representation. A conscientious effort must be made to assure effective representation, but the word equal should be dropped from the proposal.

There is an important provision which should be added to the Committee Operations - Overview section. That provision would require a periodic assessment of the FASB's response to the committee's recommendations.