

July 20, 2006

American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036

Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856

Ladies and Gentlemen:

Thank you for the opportunity to provide my comments in response to the Invitation to Comment on the joint proposal of the Financial Accounting Standards Board (“the Board”) and American Institute of Certified Public Accountants (“the Institute”) entitled “Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies.”

My comments are based on my twenty-five years of professional experience, seven at an international public accounting firm, two in industry as CFO of a private small business, and sixteen as a partner in my firm leading our Audit and Accounting practice, serving principally private companies and not-for-profit organizations and their financial statement users. In addition, I have served as an Institute volunteer as a committee member and now chair of the PCPS Technical Issues Committee, although my comments are not intended to reflect the views of that committee.

## **GENERAL COMMENTS**

I would like to congratulate the Board and Institute for their hard work and historic achievement which the joint proposal represents. I believe that user needs for financial reporting are very different between public companies and private concerns, and the proposed committee is a well-conceived venue to investigate, evaluate and propose differences in current and future accounting standards. I wholeheartedly support the efforts of the Board and Institute in this endeavor.

While I realize that not-for-profit organizations were never included in the definition of a private company (either in the joint work of the Board and Institute or in the Institute’s prior efforts), I believe that a similar effort to address not-for-profit accounting standards should be undertaken and that perhaps a similar committee structure may be effective in addressing potential standards differences for not-for-profit organizations.

## **SPECIFIC COMMENTS**

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

I am optimistic that the proposal will improve the accounting standard-setting process for private companies. I believe that the Board’s articulation of its analysis and consideration of whether differences for recognition, measurement, disclosure and transition should exist for private companies will represent a significant improvement in the quality of accounting standards the Board promulgates. I am encouraged

by the Board's process changes to ensure that input from private company users, preparers and auditors is solicited and received, and that the FASB staff will specifically address the possibility of private company alternatives.

The proposed committee will provide a useful and balanced approach for providing the Board meaningful input to assist in its deliberations, and I am especially encouraged that the Board has agreed to specifically address the recommendations the committee may make.

**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?***

Yes. I believe it is imperative that the committee, as well as FASB staff, solicit relevant input from users, preparers and auditors of private companies to gain an in-depth understanding of the financial reporting needs of private company constituents. Only with such understanding can the promulgation of high-quality, user-need-responsive standards be possible.

**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?***

I agree that user needs and cost-benefit are the two considerations that should be the basis of private company GAAP differences.

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

I disagree with this conclusion. I believe it will be difficult to identify users and preparers for the proposed committee who possess the blend of skills, experience and knowledge necessary to effectively and convincingly discharge their committee responsibilities without providing them (or their employers) appropriate compensation. I believe it would be possible to identify high-quality volunteers from the auditor population, as is now the case with numerous Institute committees.

I am also concerned that a paid, part-time chair may have disproportionate influence as compared to volunteer, unpaid committee members.

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

Yes.

Thank you again for the opportunity to present my views. Please feel free to contact me should you have questions or should my comments require clarification.

Very truly yours,



Edward J. Knauf, CPA/ABV  
Partner

**DEJOY, KNAUF  
& BLOOD LLP**

certified public accountants