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July 24, 2006

Chairman Robert H. Herz
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

By mail and e-mail to rhherz@fasb.org

RE: Financial Accounting Series Invitation to Comment, "Enhancing the Financial and Reporting Standard-Setting Process for Private Companies"

Dear Chairman Herz and Board Members:

We appreciate the opportunity to offer comments to the Financial Accounting Standards Board ("Board" or "FASB") on the proposed "Financial Accounting Series, Enhancing the Financial and Reporting Standard-Setting Process for Private Companies," ("Proposal"). The National Association of State Boards of Accountancy's ("NASBA") mission is to increase the effectiveness of state boards of accountancy. In furtherance of that goal we offer the following comments on the Proposal.

The Board is the only organization charged with the responsibility of establishing financial and reporting standards for publicly held and privately held companies. The Board was first assigned this charge in 1973, when it was formed specifically to succeed to and undertake the standard setting responsibilities of the American Institute of Certified Public Accountants ("AICPA"), a private membership organization. In 2002, the FASB determined that the AICPA should cease issuing Statements of Position that create new generally accepted accounting principles ("GAAP").

While it is clear that statutory authority to set GAAP for private companies is vested in the states, legislatures through boards of accountancy have historically and consistently permitted other bodies to develop standards under an explicit state approval process. In like manner, states exercise their authority to set auditing standards for private companies and ethical standards for their licensees. Regulation is usually accomplished through State Boards of Public Accountancy ("State Boards"). Congressional recognition of the authority of states to regulate standards in areas other than those regulated by federal standards was most recently evidenced by Section 209 of the Sarbanes-Oxley Act.

NASBA is pleased to see that the Proposal reinforces the position that the FASB is the only organization permitted to develop financial and reporting standards for publicly held and privately held companies. We are also pleased that the FASB will not create new, separate GAAP for private companies.

We agree with the changes in process that are set forth in Paragraph 18 of the Proposal, and with the decision of the FASB to assign staff members with private company experience to current and future projects, as outlined in Paragraph 19 of the Proposal. Regardless of whether or not a committee ultimately will be formed to advise the FASB, these steps alone will improve the standard setting process. These actions of the FASB are clearly in the public interest.

We note that the Proposal does not contain a definition of "private companies," other than to state that private companies are "for-profit private entities." The FASB in other pronouncements has used the terms "nonpublic entities" and "nonpublic enterprises." We recommend that "private companies" be defined in the final document in a manner that is in harmony with other terms used by the FASB to define nonpublic companies.

Under the heading, "Committee to Promote Constituent Input into the FASB Standard-Setting Process," the Proposal (paragraphs 21-29) outlines the organization and operation of a committee to be formed to assist the FASB. NASBA supports the concept that an advisory group be formed to assist the FASB, and we support the position that any differences in accounting standards for private companies be based on financial statement user needs and cost-benefit relationships. Such a committee or advisory group should be able to render assistance to the FASB.

We believe that the committee process in its entirety -- from appointment of members, to setting agendas, and ultimately in its operations -- be objective, free from bias, and without the disproportionate influence of any interest group. While we believe the accounting profession should be represented, either on the committee or in some other advisory status role, they must not exercise or be perceived to exercise controlling influence over the FASB's decisions in standard setting.

Instead of the proposed co-sponsorship concept, NASBA recommends a committee selected by the FASB through a process which balances representation from the accounting profession, industry, academia, and regulators. As relates to Paragraph 23 of the Proposal, we believe that, in the pattern of the Public Company Accounting Oversight Board's selection of its Standing Advisory Group's membership, the FASB should be the only organization to select the members of this newly proposed committee based on recommendations from all quarters or by outreach to meet special needs. The FASB then, like the PCAOB, could also select the chair from one of the constituent groups. Similarly, the FASB should be the only organization to periodically determine the needed size of the committee, and should be the only organization to determine whether or not the operations of the committee should be terminated.

The Proposal lists "interested parties" under the heading "Issues for Respondents," but does not mention as a constituent group state regulators who request financial information from private companies. (They are acknowledged in passing in paragraph 1.) This type of regulator should, in our opinion, be considered as a group for representation on the committee.

The Proposal recommends for consideration that members of the committee (except the chair) not be compensated beyond a reasonable reimbursement for their expenses. NASBA believes that this is an appropriate position to take for committee members. We also believe that the chair should be compensated for reasonable expenses and for the additional time needed to meet the demands of the position of chair.

We support periodic reviews of the effectiveness of the committee as mentioned in the Proposal. The reviews should be conducted by the FASB and might include self-assessment by the committee, as well as input from observers and other interested parties. No one constituent group should have more influence in the review process than another.

As relates to funding of the committee, we believe it preferable that the committee be financed from internal sources of the FASB and that constituent groups not be a part of the funding.

Statutory authority to set GAAP for public companies is vested in the Securities and Exchange Commission ("SEC"). The SEC has permitted the FASB to set such standards. The SEC has observer status with the FASB, which gives the SEC's observer the right to comment at FASB meetings, but not the right to vote.

The State Boards have not yet requested membership or observer status on the FASB, either directly or through NASBA. However, the constituent membership and authority of standard setting bodies and any supporting structures are critical to the mandate of the State Boards to ensure the relevance and objectivity of the standards. The Proposed committee will be a significant participant in considering the GAAP needs of private companies. The Proposal has no position on the committee for representation by the State Boards. Accordingly, at a minimum, NASBA is requesting the FASB to provide observer status for NASBA, the representative of the State Boards, on the committee.

We commend the FASB for its work on private company accounting standards and your continued diligence in assuring the public that accounting standards underlying financial reporting are developed and promulgated based on the best scholarship, objectivity, and recognition of appropriate interests.

Sincerely,

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NASBA Chair

David A. Costello, CPA
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