



State Board For Public Accountancy
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July 27, 2006

Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference 1310-100, "Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies"

Dear Chairman Herz and Members, Financial Accounting Standards Board:

I am writing on behalf of the New York State Education Department regarding the recently released proposal "Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies."

We congratulate the Financial Accounting Standards Board (FASB) for serving as an independent private sector standard setting body since 1973 and welcome its desire to seek input from various interested parties on this most important issue.

The responsibility for licensure and regulation of the practice of public accountancy, including the determination of the appropriate standard setting bodies for the promulgation of professional standards for professional practice, is held exclusively by the State regulatory bodies, primarily state boards of accountancy, under Amendment X of the U.S. Constitution. Since 1896, the New York State Board of Regents and the State Education Department, with the assistance of the State Board for Public Accountancy, have fulfilled this regulatory role in New York.

In keeping with its legislative mandate, the New York State Board of Regents in June 2006 reaffirmed its approval of independent standard setting bodies by updating the list of entities recognized to promulgate Generally Accepted Accounting Principles to include the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB), and the International Accounting Standards Board (IASB).

The Financial Accounting Foundation (FAF) is organized as an independent, private-sector organization with responsibility for the oversight, administration and finances of the FASB, the GASB and their Advisory Counsels. According to its 2005 financial statements:

"Independence is fundamental to our Boards' missions because their work is technical in nature and designed to provide investors and other users of financial reports with the most accurate way to measure and analyze underlying economic transactions and realities. **Accounting rules that are biased in any way, or that systematically exclude information relevant to investors, can be harmful to the**

public interest, investors, the capital markets, and the economy.” (*emphasis added*)

Further, according to the FASB’s web site as part of its mission:

“The FASB is committed to following an open, orderly process for standard setting that precludes placing any particular interest above the interests of the many who rely on financial information. The Board believes that this broad public interest is best served by developing neutral standards that result in accounting for similar transactions and circumstances in a like manner and different transactions and circumstances should be accounted for in a different manner. ... **The FASB is part of a structure that is independent of all other business and professional organizations.”** (*emphasis added*)

Core to the public accounting profession and the public interest is a need for independence in fact and appearance. It is difficult to reconcile the public statements of the FAF and the FASB’s mission with a jointly issued proposal that establishes a precedent to singularly empower one constituent group to co-sponsor and co-fund a committee designed to increase private company constituent input in the standard-setting process. We believe that it is more important and in the public interest for the FASB to have sole responsibility for the creation of an advisory committee consisting of members from all constituent groups, including representation from the accounting profession, private industry, academia and regulatory bodies.

The Financial Accounting Foundation’s 2005 financial statements indicate that it is financially supported through a funding model prescribed by the Sarbanes-Oxley Act of 2002, suggesting that this funding mechanism has been very successful both in ensuring FASB’s continued independence and in providing adequate financial resources to improve and establish accounting standards that serve the public interest. There does not appear to be any reason for the FASB to seek an outside party to co-fund an advisory committee at this time.

The proposed modifications to the standard setting process will help ensure that the financial reporting needs of private company constituents are met. It is important that the process remain open and deliberative and that the process include input from private company constituents, including private companies, accountants and third party users of financial statements.

Recognizing the legal mandate of the fifty-five licensing jurisdictions to protect the public and enhance the integrity of the public accounting profession, we encourage and request that the FASB engage the State Boards of Accountancy, either individually or through its membership organization, the National Association of State Boards of Accountancy (NASBA), in these discussions.

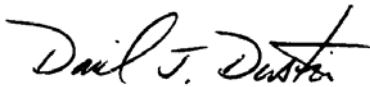
If a committee is established, the committee should set its agenda and priorities with the participation of the FASB. Committee meetings should be held in a public manner. Committee members (except the chair) should not be compensated beyond a reasonable reimbursement of expenses. Differences in accounting standards for private companies must be based on user needs and cost-benefit relationships. To assure independence in the standard setting process, the FASB

alone should be responsible for appointing the committee chair and its members and the FASB should perform periodic reviews of the committee's work to determine its effectiveness.

The FASB's international counterpart, the IASB, has maintained an active project to develop an International Financial Reporting Standard to meet the needs of small and medium-sized entities that do not have public accountability and publish financial statements for external users. A discussion paper was issued in 2004 seeking public comment and public meetings have been held. In the interest of international convergence of accounting standards, it would be appropriate for the FASB and its committees to consider the work of the IASB when it considers establishing private company accounting standards.

In summary, we have and continue to support an independent standard setting process that follows an open and thorough due process. This is critical for the public trust and is in the public interest. We look forward to working with the FASB and its constituent groups to enhance financial accounting and reporting for private companies.

Sincerely,

A handwritten signature in black ink, reading "Daniel J. Dustin". The signature is written in a cursive style and is positioned to the left of a vertical red line.

Daniel J. Dustin, CPA
Executive Secretary