June 16, 2006

Financial Accounting Standards Board
American Institute of CPAs

Letter of Comments Concerning Proposal Related to Private Companies Financial Reporting.

Dear Sirs:

I am offering my comments and views concerning the above referenced proposal. I believe I am qualified to offer useful views based on my experiences of thirty years.

My background includes:

- Nine years with Deloitte & Touche, ending as a Senior Manager in the Business Assurance practice, serving public and private companies in a variety of industries, including foreign owned entities.
- Twenty years of increasing responsibilities as a Chief Financial Officer and Corporate Controller with large, publicly owned entities who were SEC registrants.
- Currently serve as CFO of privately owned aerospace and defense industry company, which is a UK based company, with multinational operations and separate legal entities in the US and Canada.

I believe my experiences have provided me with excellent insights into accounting and financial reporting matters in multiple countries, and from both a publicly owned and privately owned perspective. In addition, my contact with issuers and users of financial statements has included owners, shareholders, executives, credit lenders and regulators.

<u>Difference in Views</u>

I believe there are clear differences, in certain respects, in the needs and perspectives of the issuers and users of financial statements.

For publicly-owned companies, the issuers (preparers) are primarily focused on compliance with rules and regulations of regulators. These regulators may include the SEC, State Securities regulators, banking regulators, or public service commissions. Executives of these issuing companies are primarily focused on acceptance of these statements by auditors and regulators without event or significant questions as to compliance with accounting or other regulatory matters.

Furthermore, most publicly owned companies are primarily focused on the view of their financial statements as taken by rating agencies with regard to the possible issuance of debt or equity securities, the various adjustments these individuals may make as part of their credit quality reviews, etc. This also includes the views of agencies and organizations that rate such investments as advisors or advisory services to the investing public. Secondly, most publicly owned companies are interested in the views of bankers who may use the financial statements, along with the views of rating agencies, in determining credit worthiness for credit matters, such as short term or long term loans and debt, and providing lines of credit for business support and short term cash needs.

Consequently, I believe that for publicly owned companies, the need and focus on full compliance and full disclosure of financial information, in accordance with accounting rules and regulations is critically important.

For privately owned companies, I believe the focus of the issuers (preparers) is timeliness of reported data, and acceptability of accounting policies and procedures to the users, and tax matters. Executives of these privately owned companies are focused on the timeliness of issuance to continue or expand credit facilities with lenders to support the business. They want to ensure that any significant variances or important differences in accounting application are understood to assist credit lenders understand and assess the company in the effort to grant credit. Consequently, it drives the use of financial statements which are prepared under Other Comprehensive Basis Of Accounting (OCBOA), such as tax basis accounting, which depicts financial data utilizing tax accounting conventions, generally of the Internal Revenue Service, based on enacted laws and regulations.

Reasons for the Differing Views

I believe that for publicly owned companies, credit lenders and rating agencies are focused on the integrity of the organization, and the profitability of the business or business segments, to assist in an evaluation of future profits and success. While cash flows are certainly considered, these are driven by the accounting cash flow statements found in most financial statements, which predominantly reconcile beginning and ending cash from an accounting perspective. Furthermore, I believe that analysts and credit lenders want to focus on non recurring events of the past which are excluded form consideration of future profits, and provisions made for known events and decisions, such as restructurings.

For privately owned companies, I believe credit lenders are primarily focused on cash flows, and thus the ability to repay loans, or short term credit facilities such as lines of credit utilized. Credit lenders are more interested in these cash flows, and a comparison of historical cash flows to future cash flows. Consequently, financial statements, even if prepared under Generally Accepted Accounting Standards are only one element of a credit lenders’ data points to understand future cash flows for the ability to repay. In this circumstance, credit lenders are more interested in the underlying business and perhaps customers and contracts supporting future cash flows, than historical financial statements prepared under GAAP. This explains the acceptance of OCBOA.

The UK Experience

As I am sure, you are aware that many countries allow financial statement preparation for small or privately owned companies to be a “short” form, which may not include full compliance with enacted accounting standards, rules and regulations. While some countries allow for such financial statements as a basis to be used for taxation purposes, I believe a better example is in the United Kingdom. In the UK it is common practice for small and privately owned companies to file financial statements with Companies House that conform to a short form set of principles. With disclosure that such statements are the “short” form version, issuers do not need to recount the differences in accounting principles and policies, nor the disclosures eliminated or shortened. I believe the UK is a good model for the US to study.

Conclusions

While I am not a large of differing sets of accounting and disclosure rules, I do believe there should be an avenue for privately owned companies to prepare financial statements that do not comply in all respects to the existing rules for accounting and disclosures in the US, which are primarily driven by SEC and publicly owned company needs. Such an option would be beneficial to privately owned companies and their credit lenders, and would be preferable, in my opinion, to adoption of OCBOA as it currently is constituted.

I am pleased to offer these comments, and would be interested in helping to formulate further thoughts in this proposal.

Yours truly,

Frank Frankowski, CPA