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financial executives  
international

→ Len Tatore - CE on GAAP hierarchy  
ED  
→ Concepts team

Committee on Private Companies

June 3, 2005

Letter of Comment No: <sup>6</sup>

File Reference: 1300-001

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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

RE: File Reference No. 1300-001

Dear Sir/Madam:

The Standards Subcommittee of the Committee on Private Companies ("CPC") of Financial Executives International ("FEI") wishes to share its views on the Financial Accounting Standards Board's ("the Board") proposed exposure draft on *The Hierarchy of Generally Accepted Accounting Principles*. FEI is a leading advocate for the views of corporate financial management. It is a professional association of more than 15,000 CFOs, treasurers, controllers and other senior financial managers. FEI enhances member professional development through peer networking, career management services, conferences, publications and special reports and research. With approximately 7,000 members from private companies, almost half of our membership is from the private sector. The CPC is a technical committee of FEI, which formulates private company positions for FEI in line with the views of the membership. This letter represents the views of the Committee on Private Companies, Standards Subcommittee and not necessarily the views of the FEI.

In general, the Standards Subcommittee agrees with the Board that the GAAP hierarchy should reside in the accounting literature established by the Board. We recognize that the proposed standard is the initial step towards simplifying the GAAP hierarchy and agree that the underlying reason for the proposed standard is, and should be, to allow the Board to:

- (1) Codify all existing GAAP as authoritative and nonauthoritative; and
- (2) Improve the FASB Concepts Statements and elevate these to authoritative GAAP.

We also believe that the FASB should incorporate in this process the concerns that nonpublic (i.e., private) companies and their users of financial information have in the current accounting standards setting environment. Several groups representing private company constituents have expressed concerns – some strongly – regarding the relevance of recent accounting standards to private companies. The FASB is aware of this increased tension and has openly acknowledged that its role as standard setter continues to include the constituents of private companies.

As such, the Standards Subcommittee and members of the CPC encourage the Board to demonstrate its responsiveness to the needs of the users of private company financial information expressly in the interrelated (a) hierarchy standard, (b) Codification project, and (c) Concepts Statements project. Specifically, the Standards Subcommittee is asking the Board to address the following three items:

First, we would like to see the Concepts Statements project be broadened, from the primary goal of reaching a common framework with the IASB, to a full consideration of the different needs of the users of private company financial information. We note that at a recent meeting on this project the Board directed the staff to add a project phase to determine the applicability of the concepts to the not-for-profit sector. We request that the Board add an additional phase directing the staff to determine the applicability of the concepts to *private* for-profit entities (versus public for-profit entities). Such a phase should include a full due diligence study of the user needs and objectives of financial reporting of private companies.

Second, we would like to see the Board incorporate specific steps in the Codification project to consider the unique needs of preparers and users of financial information of private companies. The Board has acknowledged that the cost of implementing GAAP falls disproportionately on private companies, particularly small private companies who do not have the resources to maintain and implement the increasing volume of pronouncements. The Board should use the Codification project to provide relief. This would include:

- (1) At a *minimum*, highlighting existing differences in GAAP for private entities and providing a special index listing these differences, and making the Codification more user-friendly for private companies.
- (2) Enhance the Codification by providing additional and specific implementation guidance for private companies. (An example is the implementation guidance given in Appendix A of FAS 123R for private companies.)
- (3) Review all standards for the applicability of equity and financial instruments accounting to private companies with equity structures different from those of public companies. (For example, co-ops, mutuals, partnerships and closely-held entities.)
- (4) Engage language experts to specifically communicate with nontechnical preparers and users of private company financial information with the goal of writing more readily comprehensible standards. We recommend that the Board direct that initial drafts of all chapters of the Codification be reviewed by representatives of private company preparers and users.
- (5) *Most importantly*, modify, if needed, the Codification's applicability to private companies based on the private company due diligence study phase of the new concepts statements.

Third, we recommend that the Board take steps to reduce any unnecessary *additional* tension created for private companies by the issuance of The Hierarchy of Generally Accepted Accounting Principles standard. This can be done by first, clarifying in the text of the proposed standard the role of the SEC's rules and interpretative releases in the hierarchy. If the Board intends to incorporate

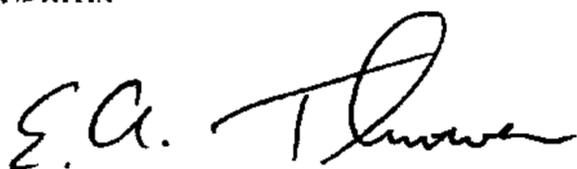
the SEC rules and interpretive releases *separately* in the codification of authoritative GAAP, then the Board should explicitly state an applicability exception for private entities directly in the standard, and not supplementally. The Board should insert into the proposed standard the FASB's *own* language from footnote 1 of the February 28, 2005 issue of *The FASB Report*:

Private enterprises should note that while SEC literature will be included in the Codification, it will be included as a separate subsection within each topic to distinguish it from other [i.e., non-SEC] GAAP requirements [and will not be applicable to private entities.]

Second, we request the Board to explain in the Background Information of the ED why the Board is establishing control of the hierarchy *now* (above and beyond its coordination of timing with the AICPA and PCAOB) as opposed to a date closer to the release of codified standards and revised Concepts Statements. Uncertainty of the period of time that will transpire, the Board's process, and the final nature of the Codification and Concepts Statements cause tension in private companies as to how standard setting will proceed in the interim, and whether or not the current environment regarding private company financial reporting needs will be addressed now or deferred. We request a clarification.

In summary, while we welcome the Board's undertaking of these historic and momentous changes, we also encourage the Board to demonstrate its awareness of its private company constituents' needs by incorporating the recommendations above and responding to our concerns. We believe that these related projects offer the Board an unprecedented opportunity to reach out to its private company constituents in a positive, responsive manner.

Regards

A handwritten signature in black ink that reads "E.A. Thrower". The signature is written in a cursive, flowing style.

Andy Thrower  
Chair, Standards Subcommittee of the Committee on Private Companies  
Financial Executives International