

October 30, 2003

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 150-c. *Effective Date and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities of FASB Statement 150.*

Dear Mr. Herz:

The American Institute of Architects (AIA) with its 73,000 members, is the voice of the architecture profession and welcomes the opportunity to comment on the proposed FASB Staff Position on No. FAS 150-c, *Effective Date and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities of FASB Statement 150.*

The AIA is greatly concerned about the designation of mandatorily redeemable financial instruments as a liability rather than an equity. We believe that FASB should reconsider this rule and, at the very least, extend the deadline for implementing this rule.

Our membership is comprised of primarily small, privately owned architecture and engineering design firms. We have many members from states that require the firms to have professional employee ownership for state licensing requirements. To maintain professional employee ownership, the firm must mandate redemption of equity shares upon the death or termination of an employee. Additionally, many of our members' firms must have mandatorily redeemable shares in order to satisfy lenders and bond issuers. The requirement of FAS 150 to recognize an immediate liability for a firm's obligation to acquire all outstanding shares imposes an extreme financial burden on these firms. This new rule appears to effectively wipe out the net worth of non-public, employee owned firms.

Further, financial statement users have yet to be effectively educated about the effects of this new and significantly different financial reporting rule. We are very concerned that this will lead to the perception that these nonpublic entities are less solvent or insolvent when in fact they are healthy, thriving business operations. This will have a significant negative impact on our members who will have reduced access to capital and investment.

Another negative impact of this change will be on firms that bid on government funded projects. When bidding on design and construction contracts for government projects, net worth of the firm is an important criterion in the selection process. This new rule would create a bias toward publicly traded firms or global competitors who are not subject to these accounting changes.

Assets are resources available to the firm. Liabilities represent claims against those resources. Equity represents the remaining interests in those assets after the satisfaction of all other claims. Shareholders have claims on that equity whether they are of a publicly traded company or a privately held firm. While a privately held firm may require mandatory redemption upon the occurrence of an event, such as death, retirement or termination of employment, clearly the triggering events for all shareholders will not occur simultaneously leading to the insolvency that the new rule appears to present to the users of financial reports.

Currently, nonpublic entities are required to disclose the redemption provisions in the notes to the financial statements. This practice is well understood in the financial community and has been in use for decades. This change is not yet understood by financial report users and will lead to our member firms finding it more difficult in attracting new clients and obtaining loans, insurance and bonding. These restrictions will stifle growth of the business and slow job creation in our economy.

In conclusion, we repeat our request that FASB delay implementation of the rule. Further, the AIA urges the Financial Accounting Standards Board to revisit this accounting change with the dangerous implications of this new rule in mind.

Sincerely,



Norman L. Koonce, FAIA
Executive Vice President/CEO

copies: Thompson E. Penney, FAIA, President
Robert Packard, Assoc. AIA, Chair, AIA Large Firm Roundtable
Eugene C. Hopkins, FAIA, President-elect, GAAC Chair
Helene Combs Drelling, FAIA, Team Vice President, AIA Relationships