



Committee on Private Companies

February 8, 2008

Teresa S. Polley
Chief Operating Officer
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856



LETTER OF COMMENT NO.

24

RE: Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

Dear Ms. Polley:

The Committee on Private Companies ("CPC") Standards Subcommittee of Financial Executives International ("FEI") wishes to express its views on the proposed changes to oversight, structure and operations of the FAF, FASB and GASB. As you may know, FEI is the leading advocate for the views of corporate financial management in the United States. It is a professional association of more than 15,000 CFOs, treasurers, controllers and other senior financial managers. With approximately half of its membership, or 7,500 members from private companies, FEI has a strong base of knowledge to draw upon with regard to the financial reporting needs and requirements of 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 FEI executives from public companies.

The proposal seeks comments on a number of areas of governance and decision making regarding the standard setting process. These are good questions to be asking. The question we would pose is whether today is the right day to initiate such deliberation and change given the fast approaching internationally converged accounting world.

We wish to note Mr. Herz's recent comments in the *Journal of Accountancy* regarding private company standard setting. It would appear that the vision for establishing private company standards is far from settled. Further, we note that the FAF has declared that private companies are a constituency for the use of accounting standards. If such is true, we would ask how the contemplated changes would ameliorate private company concerns and issues. While we don't expect an answer today, nevertheless, we believe it extremely important the FAF should formally speak to the possible outcomes for private companies in its decision making process regarding these Proposed Actions.

In summary, if changes are to be made, we think it is crucial for the FASB to include provisions to ensure formal private company representation on both the FAF Board and the FASB Board. The growth in the economy is coming from small companies; we cannot afford as a nation to implement 'one size fits all' standards that address the accounting issues in one constituency at the expense of another.

What follows are specific comments on selected Proposed Actions.

Proposed Action: Reduce the size of the FASB from seven members to five members.

FEI CPC Recommendation: We respectfully disagree with this proposed change.

The argument for reducing the board talks to worldwide convergence and the need to be nimble and responsive in the standard setting process. Clearly, nimbleness and responsiveness are two reasons why private companies exist and we support standard setters having these competencies.

The question we would raise is whether the size of the board, per se, impacts the speed of the decision making. Is it that having two more members makes the board less agile? At the extreme, having a board comprised of only one member could make the board extremely agile, but at the cost to the quality, integrity and perception of the standard setting process. From a 'driving value' perspective, we ask if agility should be the driving value or should some other value, such as broad support or quality be the driver in the standard setting process?

As private company statement users and preparers, we note that there have been at least two recent examples (FIN 48, FAS 150) wherein significant changes and delays in the standard were made about the time the standard was to have been implemented because of adverse impacts on private companies. By having a diverse constituency on the Board, it seems to us that such would provide a check that the divergent needs and views of the broad user community have been adequately addressed, and further, that the costs of the change in standards are more than balanced by the benefits for private companies.

Therefore, we do not support the proposal to reduce the number of members from seven to five.

Proposed Action: Retain the FASB simple majority voting requirement and realign the FASB composition.

FEI CPC Recommendation: We do not support these Proposed Actions particularly given the above mentioned Proposed Action to reduce the number of Board members

We should note that in both cases, the Proposed Actions ("PA") assume a five (5) member board. Given the concerns expressed above for the PA of reducing the number of FASB members, both of these PAs *reduce* diversity in the decision making process. For example, it is posited that there be one user of financial information. What will be the requirements for this user? Will this user be an investment banker, stock analyst, community banker, money center banker, private company owner, venture capitalist, angel investor, or whomever? Is it reasonable to assume that one user can cover the myriad of interests herein described?

If the purpose of general purpose financial statements is to meet the needs of users, should not the user, a.k.a. 'customer' have a higher representation in the process that is established to provide information to meet their needs? Is a one in five representation appropriate for the 'customer'?

We also have concern about the concept of 'quotas' for various groups, particularly if the number of Board members were to be reduced. The owners of private companies are substantially different than the owners are of public companies, and as capital suppliers are different than they are for public companies, we believe it to be imperative to have someone with substantial private company prepare or user experience be on the Board as well as the FAF, to insure that the

financial statement user needs of the private companies are appropriately met from a relevance as well as a cost – benefit perspective.

Therefore, we do not support this PA particularly given the PA to reduce the number of Board members.

Proposed Action: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.

FEI CPC Recommendation: Create an agenda sub-committee

The audit world contains volumes about the role of process and checks and balances. The question that we would ask here is whether the nature of the checks and balances would be enhanced or diminished by providing one member, whoever he/she may be, with this authority. If there were disagreement with the agenda, what would be the process to insure that the agenda was appropriate? What process would there be to control an agenda item, perhaps one of a political nature, driven substantially by one constituency at the expense of another?

Our recommendation is that there would be a sub-committee of three (3) of the seven (7) members to adopt the agenda. By so doing, there is a measure of checks and balances that has a perceptual or optical benefit as well.

Thank you for considering our comments. If you have any questions or wish to discuss this issue please feel free to contact me at 412/257-3885 or at Bill.Koch@ddiworld.com or Serena Dávila at FEI's Washington, D.C. office at 202/626-7809 or sdavila@financialexecutives.org.

Sincerely,



William Koch
Chair, Standards Subcommittee
Committee on Private Companies
Financial Executives International