

June 10, 2011

Board of Trustees
Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Via email: presidentsdesk@f-a-f.org

Dear Financial Accounting Foundation:

I appreciate the opportunity to comment on the recommendations made by the Blue Ribbon Panel on Private Company Financial Reporting regarding differential standards and a separate standard-setting entity for private companies. As background, I am a Texas CPA with over 20 years of professional experience in both private and public company financial reporting roles.

In my opinion, the Financial Accounting Foundation ("FAF") should not accept the recommendations made by the Blue Ribbon Panel on Private Company Financial Reporting regarding differential standards and a separate standard-setting entity for private companies. Such historic change is not necessary to effectively bring about more relevant financial statements for private companies and the users of their financial statements such as bankers/lenders, insurers, venture capitalists and others.

I do not believe a systemic problem exists which would warrant such a change. There appears to be a continuing stereotype private companies do not have similar financial and personnel resources public companies maintain, and there is a "need" for a private vs. public company GAAP in order, for example, a private company to qualify and receive a new bank loan. I have heard excuses for private companies to not follow GAAP as it is either too hard, too difficult, or there are not enough resources to complete the task. I disagree with those assertions because if you allow one set of GAAP for private companies and a different set of GAAP for public companies, relevance and reliability of the financial statements will be suspect and not comparable.

Where would the line be drawn for what is acceptable revenue recognition, depreciation policy, derivative accounting, etc.? Imagine the advantage a multibillion dollar enterprise such as Koch Industries, a private company, would have over its competitors in the quest for competitive financing? How would a financial institution be able to evaluate for loan purposes two sets of financial statements for companies of the same size and equal revenues, but one follows one set of GAAP because they are a private company yet the other reports "worse" financial data solely due to accounting methodology?

I believe the panel was incorrect in the statement private companies are incurring significant unnecessary costs for GAAP financial statement preparation and audit, review, or compilation services. In my opinion, if a company wants to have a set of GAAP financial statements – whether a private or public company – they can choose to do so. However, if the FAF and other bodies feel compelled to allow different reporting for private companies, perhaps there should be a qualifier on these financial statements such as "the financial statements have been

prepared under generally accepted accounting principles for private companies” in order to make a distinction.

Arguments have been made substantive differences in current and future standards for private companies, where appropriate, are necessary as private company financial reporting is too complex, embodies too much irrelevant information, and is too costly and time-consuming given its benefits. If the FAF agrees there is too much irrelevant information in financial reporting, why require public companies to continue to incur expenses to report this irrelevant information? If the majority agrees there is too much irrelevant information required to be reported, I believe those areas should be identified and resolved before, for example, we give private companies a free pass on comparability between two similar-sized companies in the same industry.

I have read the AICPA argument a separate body with standard-setting authority should be established directly under FAF and not subject to FASB approval. As a member of the AICPA, I do not support and strongly disagree with this approach as accounting standards will eventually diverge first on one accounting item, then quickly on all remaining items - from leases, depreciation, revenue recognition, and basic hedging transactions nothing will be comparable. If a separate standard-setting authority is established, soon we will have an administrative and financial nightmare: will there also be a private IFRS GAAP vs. a public IFRS GAAP?

Thank you for the opportunity to express my views on the recommendations made by the Blue Ribbon Panel on Private Company Financial Reporting. If you have any questions regarding the comments set forth in this letter, please contact me at mpgallagher2007 at gmail dot com.

Best regards,



Michael P. Gallagher