

News Release

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AICPA TASK FORCE RECOMMENDS EXPLORING CHANGES TO GAAP FOR PRIVATE COMPANIES

AICPA Working with the FAF and FASB on Next Steps

NEW YORK, NY – March 1, 2005 – A task force comprised of key constituents of private company financial reporting has unanimously recommended that a process be established to evaluate potential changes to Generally Accepted Accounting Principles (GAAP) in order to improve the usefulness of private company financial reporting. The task force, sponsored by the American Institute of Certified Public Accountants (AICPA), based its conclusions on the inputs of more than 3,700 business owners, public accounting practitioners, financial managers, lenders, investors, and sureties.

The task force began work in early 2004 in response to concerns expressed by interested parties about the relevance, benefits, and related cost of certain financial reporting requirements for privately held, for-profit entities. These private companies represent over 99 percent of the nation's incorporated businesses. In commenting on this study, James G. Castellano, CPA, and former chair of the AICPA, who headed this task force, said, "This group did not approach its research with a preconceived notion that issues or problems with GAAP financial reporting for private companies existed. We wanted to understand if what many of us had been hearing was simply the opinion of a vocal minority or the true expression of concerns by stakeholders of private company financial reporting."

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The research was conducted for the task force by The MSR Group, an independent market research firm, and is believed to be the most extensive ever conducted on this frequently discussed topic. The study included the use of focus groups, a stratified random sample telephone survey and an open, on-line poll. Each phase of the research included participants from the key constituents of private company financial reporting.

“Overall, the survey respondents rated the value of GAAP financial statements of private companies quite highly on consistency, providing comparability among companies, and on their use as a tool in credit and investment decisions,” according to Castellano. “However, through our discussions, focus groups, and research, we learned that constituents rated certain GAAP requirements as providing relatively low relevance and decision usefulness to constituents of private company financial reporting,” added Castellano.

Barry Melancon, AICPA President and CEO, commented, “We are happy to say that the AICPA Board of Directors (subject to input from its Governing Council), the Financial Accounting Foundation (FAF) and Financial Accounting Standards Board (FASB) have agreed to work further to collaboratively explore an appropriate course of action to improve the usefulness of private company reporting.”

The FAF and FASB neither endorse nor reject the task force’s conclusions. Robert Herz, Chairman of the FASB, noted “Private companies are a vital force in the nation’s economy and it is therefore critical that their financial reporting be conceptually sound, cost effective, and provide relevant, reliable and useful information. The FASB has taken a number of steps in recent years to increase the voice and participation of private company users, preparers and auditors in FASB activities, and to codify and simplify the GAAP literature. We are very open to exploring ways to further enhance the overall value of private company financial reporting.”

The AICPA, FAF and FASB agree that any proposed changes that might result from this effort would need to be fully exposed for public comment and debate.

A complete copy of the task force report can be found at:

http://www.aicpa.org/members/div/acctstd/pvtco_fincl_reprt/index.htm

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The American Institute of Certified Public Accountants (www.aicpa.org) is the national, professional organization of CPAs, with approximately 350,000 members, including CPAs in business and industry, public practice, government, and education; student affiliates; and international associates. It sets ethical standards for the profession and U.S. private auditing standards. It also develops and grades the Uniform CPA Examination.

The Financial Accounting Foundation is responsible for overseeing, funding and selecting the members of the FASB and the GASB. For more information on the organizations it oversees, visit the Foundation's websites at www.fasb.org and www.gasb.org.

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information.

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