

**FASB Roundtable Discussion
PROPOSAL FOR
PRINCIPLES-BASED APPROACH TO U.S.STANDARD SETTING**

December 16, 2002

OUTSIDE PARTICIPANTS—MORNING SESSION (9:00-12:00)

<u>NAME</u>	<u>AFFILIATION</u>
Scott Taub Paul Munter	U.S. Securities and Exchange Commission
Sir David Tweedie James Leisenring	International Accounting Standards Board
Mary Keegan Allan Cook	U.K. Accounting Standards Board
Itzhak Sharav	Columbia University
Gordon E. Goodman	Occidental Petroleum Corporation
Chuck Maimbourg	KeyCorp
Lessie Sutherland	Shell International
Rodney W. Hurd	Equipment Leasing Association
William Ezzell	American Institute of Certified Public Accountants
Robert Laux	Microsoft
Esther Mills	Merrill Lynch Bond Market Association
James Harrington	PricewaterhouseCoopers
Mitch Danaher	Institute of Management Accountants
Mike Starr	Grant Thornton
David Holman	Ernst &Young

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PROPOSAL FOR
PRINCIPLES-BASED APPROACH TO U.S.STANDARD SETTING

December 16, 2002

OUTSIDE PARTICIPANTS—AFTERNOON SESSION (1:30-4:30)

<u>NAME</u>	<u>AFFILIATION</u>
Scott Taub Paul Munter	U.S. Securities and Exchange Commission
Richard Vangermeersch	University of Rhode Island
Fred Tepperman	FLT Investors
David Colistra	Financial Executives International IBM Corporation /
Jennifer O'Dell	International Brotherhood of Teamsters
Richard D. Levy	Wells Fargo and Company
Robert Uhl	Deloitte & Touche
Ben Neuhausen	BDO Seidman
Damon Silvers	AFL-CIO
William J. Brunner	American Bankers Association
John Guinan	KPMG
Andre Van Hoek	Johnson & Johnson
Jane Adams	Association for Investment Management and Research
James Campbell/ John Hertz	Intel Corporation

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ROUNDTABLE DISCUSSION

OVERVIEW

Many participant respondents indicated varying degrees of support for the Board's proposal for a principles-based approach to standard setting, emphasizing, among other things, the following:

- The need for the Board to supplement its initiatives to develop principles-based standards with other related process changes responsive to the underlying problem(s) in the financial reporting system.
- The need for the Board to clarify the meaning of the term *principles* in the context of principles-based standards and the content of such standards, focusing on (a) the level of interpretive and implementation guidance that would be provided in the standards and after the standards are issued and (b) exceptions. With respect to interpretive and implementation guidance, many participant respondents indicated that the right mix of principles and guidance would be necessary to ensure that the principles are generally understood and applied consistent with the objectives of the standards and to achieve comparability. In that regard, they indicated support for having a more centralized standard-setting process, with the Board as the primary standard-setter responsible for providing that guidance through one or more other groups, such as the AICPA, outside task forces (EITF), industry committees, and special topical committees. With respect to exceptions, some participant respondents indicated that exceptions might be necessary to modify the scope of the standards so that the principles are applied to the appropriate transactions or events and (or) limit volatility in situations in which reporting volatility is not a faithful representation of the phenomenon it purports to represent.
- The need for the Board to undertake a project to improve its conceptual framework, fundamental to a principles-based approach.
- The need for the Board to ensure that an environment in which participants would be willing to use professional judgment in interpretation and implementation of the standards exists. Many participant respondents suggested that before adopting a principles-based approach, the Board ensure that oversight and enforcement bodies (SEC, PCAOB, OCC) and analysts and other users understand and are willing to accept the consequences of such an approach, in particular, some divergence in practice for similar transactions resulting from increased use of professional judgment.
- The need for the Board to develop a clear transition plan setting out a timetable for adoption of a principles-based approach and reconsideration of existing standards.

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ADDITIONAL DISCUSSION QUESTIONS

At the December 16 roundtable meeting, the Board would like to further discuss the comments provided, focusing on, among other things, the following:

- Is a principles-based approach responsive to the underlying problems inherent in the existing financial reporting system? What, if any, related process changes should the Board make?
- What are the implications of establishing accounting principles designed to achieve an objective of accounting for the economic substance of transactions? How can that objective be operationalized?
- In developing new standards, how might the Board distinguish between principles and rules so that the principles can be generally understood and applied consistent with the objectives of the standards?
- What factors should the Board consider in determining the need to provide interpretive and implementation guidance in the standards and after the standards are issued?
- Is there an inherent difference in the level of detailed guidance required to address recognition, measurement, or disclosure issues?
- When, if at all, would scope exceptions be appropriate in principles-based standards?
- When, if at all, would treatment alternatives be appropriate in principles-based standards?
- Is it feasible and desirable to adopt consistent transition provisions for all new standards?
- What issues should a conceptual framework improvements project address and in what order?
- How can the Board ensure that other participants understand and are willing to accept the consequences of a principles-based approach? How can other participants communicate their understanding and acceptance of the consequences of a principles-based approach?
- How should the Board transition to a principles-based approach? For example, should the Board focus initially on new standards before addressing existing literature? What topics in existing literature should be addressed first?

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