



Board Meeting Handout

PRINCIPLES-BASED STANDARDS MARCH 26, 2003

The Board will discuss significant issues raised by respondents to FASB Proposal, *Principles-Based Approach to U.S. Standard Setting*. The Board also will discuss possible future steps developed based on those comments, focusing on improvements to (1) the conceptual framework, (2) the standards, and (3) the process for developing the standards.

1. Improvements to the Conceptual Framework

Many respondents emphasized the need for an improved conceptual framework as a basis for developing the standards—regardless of the extent to which the standards are “principles based.” Possible future steps include the following:

- a. Develop a reporting framework similar to IAS 1, *Presentation of Financial Statements*, which sets out overall considerations for the presentation of financial statements, guidelines for the structure of financial statements, and minimum requirements for the content of financial statements.
- b. Clarify (or reconsider) the fundamental aspects of decision-useful information, including the concept of economic substance.
- c. Clarify (or reconsider) the basis for the prevailing “asset and liability view” (that the definitions of assets and liabilities are the controlling definitions and, thus, have conceptual primacy) versus the “revenue and expense view” (that the definitions of assets and liabilities depend on definitions of revenues and expenses).
- d. Refine the assets and liabilities definitions.
- e. Define relevant measurement attributes and address related reliability issues.
- f. Clarify (or develop) guidance for making assessments that affect application of the standards, including materiality assessments and cost/benefit analyses.

2. Improvements to the Standards

Many respondents referred to the need for standards that are operational, consistent with the conceptual framework, and consistent with each other—regardless of the extent to which the standards are “principles based.” However, they expressed differing views on whether to eliminate exceptions and on the appropriate level of interpretive and implementation guidance (in the standards and elsewhere). Possible future steps include the following:

- a. Establish guidelines for developing new standards that focus on operability (simplicity), consistency with the conceptual framework, consistency with other existing standards, and consistency in transition.
- b. Establish guidelines for when to permit exceptions, affirming an objective of having few (if any) exceptions in the standards.
- c. Establish guidelines for when to provide interpretive and implementation guidance (in the standards and elsewhere), affirming an objective of having more focused guidance addressing relatively complex situations.
- d. Establish an objective of issuing converged IASB/FASB standards that are identical in all material respects. The standards would have clearly defined objectives, show the main principles in bold face type, and, in the forepart, discuss the main principles, the rationale for those principles, and how those principles relate to the conceptual framework.

3. Improvements to the Process for Developing the Standards

Many respondents suggested changes to the process for developing the standards aimed at improving the quality and timeliness of the standards. In that regard, respondents said that the FASB should be the primary U.S. standard setter, involving the EITF and others in developing needed guidance (in the standards and elsewhere). In that regard, respondents expressed support for the Board’s decisions to centralize the standard-setting process and to increase the level of user involvement in the standard-setting process through the EITF and the newly formed User Advisory Council. Other possible future steps include the following:

- a. Form topical advisory groups/standing working groups.
- b. Establish liaison relationships with other existing groups.
- c. Field test Exposure Drafts before they are issued and consider other actions similar to those being considered as part of related process efficiency initiatives.
- d. Complete initiatives under consideration as part of related Application & Implementation activities, in particular, initiatives to codify the accounting literature comprising U.S. GAAP and improve the technical inquiry process.