

Letter of Comment No: 9
File Reference: 1125-001
Date Received: 11/7/02

Financial Accounting Standards Board
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The gist of this comment is that the FASB has too many flaws in its basic conceptual and societal structures to begin to address a principles-based approach for U.S. standard setting in financial accounting. I have expressed these concerns to various FASB members over recent years, mostly orally at various Northeast Regional American Accounting Association Meetings and – occasionally—in the written submission to FASB. I am interested in participating on December 16, 2002 at the public round table discussion. Please let me know the particulars of such a discussion, so I can book a hotel for the meeting.

My first point deals with the strong FASB bias to stockholders and bondholders—understandable, perhaps, because of the importance of U.S. capital markets—and not as oriented to privately-traded companies and small business nor oriented towards a broader-based approach—STAKEHOLDERS rather than just stockholders and bondholders. These lackings lead to an all too limited view of financial accounting. FASB is all too casual in using phrases like “serve to public interest,” “and other users,” and “other similar decision.” Financial accounting is much, much broader than just serving U.S. capital markets, stockholders, and bondholders. A stakeholder approach would include: employees; short-term creditors; government regulators of all sorts; public interest groups; competitors; financial analysts; academics; and so on. There always will be a “so on” but there are too many interested parties to limit specific mentioning of interest groups to the set of “present and potential investors and creditors.” This is also true with “other similar decisions.” These too should be specified.

Another example of this problem comes with item 4 on page 1 of the draft. That item: “(4) neutral, favoring neither supplier nor user of capital; neither buyer nor seller of securities” –scarcely includes enough “interested parties” for which FASB should be neutral.

Another concern I have is that FASB seems to be forgetting the extremely litigious nature of U.S. society, especially on the issue of class action lawsuits. While I do not pretend to be a lawyer nor to be very knowledgeable of legal situations in other countries, I am of the opinion that a “principles-based” “UK” approach must address the issue of the U.S. litigious society that can destroy any and perhaps all public auditing firms. I think this issue must be addressed by FASB.

I strongly believe that FASB is clearly out-of-step with users on the issue of FASB’s balance sheet orientation versus the income statement orientation of most users.

“Volatility of Earnings” is an issue that will not go away, because FASB is currently out-of-step with the world. The crudities of SFAS No. 142 perfectly illustrates this point, as I pointed out in my email on the historical stupidity of that statement.

I strongly favor the use of APB Concepts Statement No. 4 as the base for a principles-based financial accounting approach. The seven FASB Concepts Statements have not been effective because of a well meaning, but misguided, use of the balance-sheet approach. Certainly, Robert T. Sprouse is a man to be admired for many carefully reasoned statements but his basic premise was found wanting in Accounting Research Series #3 and is still wanting in terms of practicality 40 years later.

On page 8, the words “and other users of financial information” shows again the need to define much more specifically who they (“other users”) are and how FASB can reach them. On page 10, the word “if” is too indefinite to have operational meaning. The litigious U.S. class action matter makes the costs far outweigh the benefits.

In summary, I believe FASB has continued to go down the wrong road. This proposal, not only does down the wrong road, it goes the wrong way on the wrong road.

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