



**Washington
Mutual**

Letter of Comment No: 104
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January 2, 2002

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1125-001

Dear Ms. Bielstein:

Washington Mutual, Inc. (WMI) is a financial services company with over \$250 billion in total assets as of September 30, 2002. Based on those total assets, WMI was the largest savings institution and one of the ten largest financial institutions in the United States. It also is one of the leading residential mortgage loan originators and residential mortgage loan servicers in the nation.

We would like to comment on the Proposal, *Principles-Based Approach to U.S. Standard Setting*. Although we support the general notion of principles-based accounting standards, we have serious concerns about whether such an approach would be desirable in the current complex business environment.

With the advancement of technology and the financial markets, the business environment in the U.S. has gotten and continues to get more complex. New and more complex financial instruments and transaction structures are being developed each day. Under those conditions, we are skeptical whether a standard setting approach that excludes all exceptions is appropriate. In other words, with the multitude of types of transactions, it is difficult to develop accounting standards that are "one size fits all." In addition, we believe that moving to an approach that provides broad guidance with limited specifics and requires significantly more judgment could be the wrong direction to take. We believe that exceptions (used judiciously and wisely) are a necessary part of the standard setting process to ensure that all transactions are reported in a transparent and reasonable manner.

We share the concerns expressed by others that there has been a trend for accounting standards to be overly complex, operationally burdensome, and difficult to understand

and apply in practice. However, we believe that rather than make a drastic move to complete opposite end of the spectrum, it would be prudent to move to an approach that strikes a balance between the principles-based approach outlined and the existing rule-based approach. In other words, we would favor continuing to utilize the existing rule-based approach but with a principles-based approach mindset.

If a principles-based approach were adopted, we believe that much of the accounting guidance to address the gaps will be promulgated in practice by public accounting firms and the SEC staff by virtue of the fact that their approvals will be required on all significant accounting positions taken. As such, interpretive guidance will wind up being developed behind closed doors and will not be an open process that is under the “sunshine.” We believe that such an approach is less desirable and will lead to less transparency of and more inconsistency in the financial information provided to readers of the financial statements.

We also have concerns about how feasible it would be to implement a principles-based approach at this time. As noted in the Proposal, such an approach first would require significant revisions to the Concepts Statements. While the Concepts Statements were being reconsidered, it would be difficult for the Board or the Emerging Issues Task Force to address outstanding or new issues. Consequently, there would need to be an extended period of time during which outstanding or new accounting issues could not be addressed. Once the Concepts Statements were updated, all existing FASB Statements would need to be reconsidered and rewritten under the revised Concepts Statements using a principles-based approach. That process would further delay the issuance of new guidance. During that entire process, the Board also would need to take time to resolve any differences that might arise between the revised Concepts Statements and accounting principles being developed by the IASB. As a result, it could be several years before any significant new guidance could be issued by the Board.

We believe that the notion of moving to a principles-based approach was a popular reaction to solving the problems that might have led to the recent high-profile accounting scandals (e.g., Enron and WorldCom). Ironically, those accounting scandals were not a result of too many accounting rules. Rather, despite the high level of accounting guidance that was available, certain individuals in those companies simply chose to misapply the existing accounting standards. Changing to an approach that would provide less accounting guidance going forward would seem to just make it easier for such misbehavior to occur, sending financial reporting in the wrong direction.

The Financial Accounting Standards Board has led the world in setting accounting standards that have provided the financial reporting transparency necessary to create the most efficient capital markets. The existing rule-based approach evolved from the more principles-based approach that was used by the Accounting Principles Board. We believe that the evolution to the current rule-based approach occurred for a reason and that those reasons still are valid (e.g., complexity of the business environment, financial markets, and transactions). The benefits of moving to a less rigorous model to accommodate

international harmony do not outweigh the costs of less transparency and less efficient capital markets. The United States should remain a leader in setting accounting standards and should not lower its standards just to be more closely aligned with the international business community.

Like a single “flat” tax rate, we believe that the notion of principles-based accounting standards sounds very appealing but probably is not practical given the complexity of today’s financial markets, financial instruments, and transactions. We believe that balance is needed in setting accounting standards but that the flexibility to provide exceptions to address special types of transactions or situations should be maintained. Consequently, we believe that the current rule-based approach should be retained but that the Board should apply more of a principles-based mindset when establishing future accounting standards.

We appreciate the opportunity to comment on the ED. If you have any questions regarding our comments, please contact me at 206/377-5957 or Larry Gee, Corporate Accounting Manager, at 206/377-3684.

Very truly yours,

Robert H. Miles
Senior Vice President and Contoller
Washington Mutual Bank

cc: Larry Gee