

PricewaterhouseCoopers LLP 500 Campus Dr. Florham Park NJ 07932 Telephone (973) 236 7000 Facsimile (973) 236 7771

January 3, 2002

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

Letter of Comment No: 38A File Reference: 1125-001

Date Received: 1/6/03

Re: Proposal For a Principles-Based Approach to U.S. Standard Setting (File Reference No. 1125-001)

Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's *Proposal For a Principles-Based Approach to U.S. Standard Setting*.

We support a move towards principles-based standards. We believe such a move could result in numerous benefits, including an improvement of the quality and transparency of financial reporting. However, we believe that such a move is only part of the solution, and that a larger problem needs to be addressed by the Board.

We believe the current financial reporting model is in need of improvement. A longstanding staple of the current financial model is an entity's historical financial statements. Over time, it has become increasingly difficult to understand those statements, particularly to be able to discern an entity's financial status and its financial performance, and to use the statements to determine the entity's future prospects. There are disconnects between the financial statements, information disclosed outside the financial statements, and information that management uses to run its business. The current model falls short of clearly reporting results of operations as well as revealing the true value created by an entity's management. As such, the model is less effective as a predictor of future results. Recognizing this, entities are increasingly trying to bridge the gap by providing supplemental information, such as other measures of operating performance and value creation, and by presenting pro forma results. Stakeholders are making investment decisions based on this supplemental information, despite the fact that there is no framework to guide its preparation and presentation, and no independent check on its accuracy and fairness.

PRICEWATERHOUSE COPERS 10

We recommend that the current financial reporting model be expanded into a business reporting model. Among other things, the new model must be capable of capturing and disclosing the values that are derived from the economics of an entity's business transactions. It also should inform investors about an entity's plans for value creation, including describing what management thinks the future holds for the entity, and its strategy for creating value. Historical information under the new model will be more like a scorecard that will communicate the achievements of the entity's management in attaining value creation. We envision a greater emphasis on reporting fair values and reporting both financial and non-financial factors that affect value creation. In addition, the new model will have a greater focus on cash earnings and cash generation.

PricewaterhouseCoopers has been actively engaged in taking the first steps toward improving the financial reporting model through our ValueReporting™ initiatives, which are aimed at helping companies to capture and report information about the critical value drivers of their businesses. We would be pleased to discuss this initiative with you, including how it might fit into the broader effort of transforming the current financial reporting model in a business-reporting model. Our responses to the specific questions included in the ED are included in Exhibit I.

We appreciate the opportunity to provide these additional comments. If you have any questions regarding our comments, please contact James F. Harrington at (973) 236-7203 or Kenneth E. Dakdduk at (973) 236-7239.

Very truly yours,

Pricewaterhouse Coopers LLP



FASB Request for Comments on the Proposal For a Principles-Based Approach to U.S. Standard Setting

PricewaterhouseCoopers LLP's responses to specific questions raised for comment

Question 1: Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?

We encourage the Board to move towards more of a principles-based approach to setting accounting standards. In our view, such an approach can provide numerous benefits. For example:

- Standards produced under a principles-based approach will bring more focus on the
 economic substance of transactions rather than their form. As a result, financial
 reporting could become more representationally faithful and more useful for decisionmaking purposes.
- The accounting and reporting system will be more flexible compared to a detailed rules-based system with rigid, quantitative bright lines. Thus, it will allow for greater exercise of judgment by preparers and auditors, which should in turn permit the accounting to better reflect the substance of the transactions being accounted for.
- There will be less opportunity for financial accounting engineering aimed at getting around detailed rules-based standards.

Question 2: Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair override?

We believe the Board should improve the Concept Statements rather than developing an overall reporting framework model similar to IAS 1. We also believe that the Board should not develop a true and fair override. First, this should not be needed under a principles-based model since the economic substance of transactions should be adequately reported. Second, we do not believe an exception like this should be built into the FASB's framework. Rather, it should remain as it is currently under the AICPA Code of Professional Conduct.

Question 3: Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?



For a principles-based model to be effective, we believe that there should be standing industry and topical committees to assist the FASB in developing the standards and providing interpretive and implementation guidance, to the extent deemed necessary to provide a certain level of consistency in application and comparability of results. In our view, the FASB should be the primary standard-setter responsible for providing such guidance.

Question 4: Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?

All parties are currently accustomed to receiving detailed standards, so a switch to principlesbased standards is likely to leave some feeling there is a void. Therefore, an initial reaction by some may be to call for additional guidance. Eventually, we believe all groups will be able to adjust to a principles-based model and be able to make reasonable interpretations of the provisions of a principles-based standard. What gives them concern today is that they will be second-guessed by their auditors, by regulators, or by others. All parties will need to work together in order for principles-based standards to succeed. Specifically, financial statement preparers must be willing to interpret and apply the standards within the spirit of the rule and in accordance with the substance of the transaction. Auditors must have the resolve to bring to light situations where the standards have not been applied as intended and the accounting is not in accordance with the substance of the transaction. And, regulators and others must be willing to allow the system to work, principally by limiting the extent to which they secondguess the judgments of preparers and auditors as long as those judgments are made in good faith and the resulting accounting reflects the substance of the transactions. In that regard, there may need to be increased safe harbor protection for entities to create an environment that is more conducive to making better and more informative disclosures that increase the transparency of reported financial information.

Question 5: What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?

It is, of course, difficult to predict with any degree of certainty what the ultimate costs will be of adopting a principles-based approach in the U.S. However, some of the costs of adopting such a model might include:

- Costs to the FASB, including additional staff and other resource needs to develop new standards and an appropriate transition plan to convert existing detailed standards to broad-based standards.
- Costs to the FASB to implement and maintain standing interpretive committees.



 More broadly, the possibility of increased lawsuits as a result of more informative disclosures.

We believe, however, that the benefits of adopting such a model, as explained in our response to Question 1, would outweigh the costs. A successful transition to principles-based standards, particularly as part of a move to a broader business-reporting model, can, in our view, improve financial reporting and contribute to restoring the integrity of the U.S. capital markets.

Question 6: What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?

As mentioned in our cover letter, we believe a move to principles-based standards should be considered part of a broader movement to expand the current financial reporting model into a business-reporting model. We also believe the Board needs to consider the convergence of accounting standards around the world into "Global GAAP." We encourage the Board to think in those terms as it deliberates this project.