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Ms. Kimberley R. Petrone
Director of Planning, Development and Support Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
File Reference No. 1125-001

Re: Comments on *Proposal for a Principles-Based Approach to U.S. Standard Setting*

Dear Ms. Petrone:

This letter was written to voice the opinions of American Family Mutual Insurance Company on the proposed *Principles-Based Approach to U.S. Standard Setting.* We appreciate the opportunity to comment on the proposal and hope you will find useful feedback in this response. While we support many of the Board's views and intentions presented, we also wish to voice a few of our own concerns that arose when reviewing the proposal. These concerns have been addressed below in conjunction with the answers to the specific questions posed for comment.

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?**

   While the concept of more encompassing yet concise standards is appealing, the above question is far too complex for a simple yes or no answer. We tend to favor an approach somewhere in the middle of the current and proposed standards, unless many important issues can be dealt with prior to issuance in its proposed form. With comparability being one of the main goals of financial reporting, we believe that a reduction in the exceptions to the principles may alone accomplish many of the Board's intentions. Fewer occasions to practice creative accounting by exploiting exceptions may provide for more consistent reporting among similar transactions and may also reduce the complexity and confusion inherent in the standards.

   However, we hesitate to endorse an approach that could cause many setbacks by eliminating the interpretive and implementation guidance currently in place. Although we feel that more general standards could bring consistency through their applicability to broader transactions and organizations, we feel there are many negative side-effects that first need to be anticipated and prevented before the interpretive and implementation guidance can be necessarily reduced.

   That said, we tend to favor an approach that would significantly reduce the amount of exclusive wording and interpretive and implementation guidance in the standards if the concerns raised in the remainder of this document regarding this proposal have been thoroughly investigated and addressed.

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

   While we feel that an overall framework as in IAS 1 may be useful in providing guidance on general reporting matters, we feel that a true and fair view override is absolutely critical were the proposal to be implemented. As the new approach would eliminate nearly all exceptions to the standards, management would need to be confident that any decision to deviate from compliance is justified and properly executed so as not to mislead stakeholders. Without at least a slight amount of corporate hand-holding, management may be reluctant to stray from the standards even if compliance would be misleading, especially in light of the current litigious and regulatory environment and with financial records under public scrutiny.

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?**

   As stated in the proposal "the main reason for interpretive and implementation guidance in accounting standards is to ensure some level of comparability, that is, that certain similar transactions and events covered by the standards are accounted for similarly by all entities." One of the main obstacles we see in the way of this proposal becoming an effective method of reducing confusion in the standards is its effect on comparability. While the general nature of the new standards is intended to encompass a larger group of situations, many more assumptions made by a larger constituency may actually reduce comparability, thus defeating one of the main purposes of the proposal. Simply put, we believe that if one body sets the standards for a large group, more comparable results can be achieved than if the individual members of the group interpret a general model for themselves.

   Due to its current role as the primary financial reporting standard setting body, we believe the FASB should also be the primary standard setter providing guidance for these standards. As noted in the proposal, however, a high degree of cooperation is necessary among all standard setters. With the IASB currently using the principles-based approach and with the SEC looking into the merits of such an approach in connection with the Sarbanes-Oxley Act, these two bodies will be especially crucial in implementing the proposal if it is to succeed.

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?**

Although it will take a strong commitment on the part of those involved, we believe that all parties would eventually be able to adjust to a principles-based approach. Procedures will have to be developed by the SEC and other regulatory bodies to evaluate the positions taken by management and to rethink the bodies' existing attitudes toward reviewing financial results. As the new standards may allow for more subjective thinking, these bodies may have a more difficult time refuting positions taken by management.

Additionally, these bodies may have to implement new reporting models for management to communicate its judgment to the users of the financial statements. With more responsibility being given to management to determine the methods of accounting for and reporting transactions, many more assumptions will be made that may require disclosure. Regulatory bodies may therefore be forced to issue guidance determining the level and method of disclosure necessary so users of the financial statements can adequately comprehend management's thought processes and therefore continue to make educated investing, financing and other decisions.

While professional skepticism is an underlying necessity of auditors and regulatory bodies, cost/benefit analyses may eventually come into play when concluding on the propriety of management's financial reporting tactics with the subjective nature of interpreting the new standards. Enron and other recent accounting scandals have demonstrated the catastrophic results that can occur when auditors are pressured to agree with management's decisions, whether or not they are made in good faith. As many more situations involving judgment will now be delegated to management, auditors will now more than ever need to resist the urge to agree with management's position until the auditors can effectively form a position of their own.

Investors, creditors, and other users of the financial data may also need to adjust their thinking to better evaluate the figures presented. While the old standards allowed for exceptions to avoid volatility of earnings, the new standards may produce large earnings swings that could easily frighten away the unprepared user. The standard setting bodies will probably need to educate the public that these large fluctuations were always present but were simply hidden under the old standards. Additionally, these users will need to muddle through the lengthy new disclosures that may be presented in the financial statements as management attempts to cover itself for the additional judgments inherent in its this new financial accounting and reporting model.

We believe the largest burden resulting from this new approach, however, will rest on the shoulders of management. The major accounting firms and Fortune 500 companies undoubtedly employ sufficient staff to research, interpret, implement, and disclose relevant standards. Many of the smaller firms and companies, however, already face significant staffing and monetary shortages and will therefore be hard-pressed to devote the resources needed to evaluate the impact of these more general standards.

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?**

While the proposal presented most of the important benefits and costs we foresee in the project, we feel the importance of many of them was downplayed. For example, while acknowledging that a great deal of commitment would be necessary from all parties involved, the proposal barely touched on the great strides that may have to be made in order to guarantee such a commitment.

Quantification of these benefits and costs will need to include factors such as length of time to develop the new standards, length of management and auditor time to read and interpret the standards, length of management time to implement the new procedures in their accounting department and systems, and length of time to educate stakeholders on what to expect from the new changes. With more subjectivity inherent in the proposal, audit time (and thus, audit fees) may also increase substantially while auditors determine whether the assumptions used by management appear reasonable and proper. When evaluating these resource requirements, it should be remembered that smaller organizations will have more difficulty devoting both the time and monetary resources necessary and therefore the costs to those organizations will be much greater.

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?**

We foresee potential problems in the area of interpretive and implementation guidance arising from non-FASB sources both having and lacking in standard-setting authority. Publications such as AICPA Statements of Position and Industry and Audit Guides and guidance provided by external auditors have always been used by organizations when determining proper accounting and reporting practices. With interpretive and implementation guidance no longer being provided directly from the FASB, these other groups may become de-facto standard-setters. Additionally, while previous standards provided black and white guidance, the new ranges of acceptable accounting practices may mistakenly lead some management groups to believe that what is acceptable for their competitors will also be acceptable for their own organization. As individual organizations and collective industries begin disclosing their respective assumptions and understanding of the new general standards, many others will begin to take those assumptions and understandings as their own, thus defeating the purpose of the proposal. A method may need to be developed to combat this potential problem of others issuing interpretations while the FASB itself refrains from issuing further interpretive and implementation guidance that has led to complexity and confusion in the past.

Another area that may require a great deal of thought prior to acceptance or rejection of the proposal in its current form is the method of superceding previously issued standards. Even if all stakeholders commit to adoption of this new framework, they still have decades of experience using the old examples and exclusions that will have to be overcome. We believe many management groups will resist changing their previous methods of accounting and reporting under old standards based on the assumption that they were at one time reporting "correctly", and making standards broader would not change the reporting requirements in their minds. The detail previously provided to them may no longer be present, but previous experience with similar transactions may still trigger the same outcomes as was explicitly required in the past. Therefore, we foresee no major accounting changes resulting from changes in previously issued standards.

In addition to a change in mindset, a final potential area of concern we foresee results when situations previously, but no longer, excluded under the old standards must now be reflected in the financial records, thus creating a large consistency issue. Suddenly many transactions that were previously exempt from the accounting and reporting requirements may snowball into a very large impact on earnings that may be unable to be absorbed by some organizations. Whether or not these transactions were legitimately excluded from previous requirements, suddenly recognizing them could cause a great change in investor and creditor confidence, which may, much like the recent accounting scandals, negatively impact the feelings toward the accounting profession as a whole.

Although we have presented many obstacles in the way of the push toward more general standards, we do feel that the proposal would be very beneficial overall. We are long-believers in "big picture" accounting and realize that the profession needs to step back and see that transactions are recorded and reported reasonably, rather that simply in accordance with cookie-cutter processes that may not make sense when considering the underlying substance of those particular transactions. Something must be done to prevent the creative accounting tactics that have been employed in the past, and if the above issues can be addressed we believe that the elimination of the exclusions and much of the interpretive and implementation guidance built into the previous standards may accomplish that goal.

We appreciate the opportunity to comment on this proposal. If you have any questions, comments, or concerns regarding the opinions presented above, please feel free to contact me at (608) 242-4100 ext. 30018 or at treynold@amfam.com.

Sincerely,

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