

To: Financial Accounting Standards Board
From: Michael F. Balboa
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I am an accounting student at Providence College. Our final assignment for the semester is to submit our thoughts concerning the implementation of a principle-based approach for accounting standards.

The ultimate goal of the accounting industry is to benefit investors as well as the companies and professions they regulate. Changing over to a principles-based approach poses the question: can accountants be trusted in making professional judgments in light of the recent scandals such as Enron and Worldcom. Clearly, the rule-based system has not worked well of late and perhaps it is time for a change. Relying exclusively on rules, for example, permits accountants to declare that a financial statement has met regulation, even when the law is being grossly abused.

However, a principle-based approach could make it more difficult to compare financial information because it leaves too much room for judgment calls by companies and auditors. In light of recent accounting debacles, I do not believe it is judicious to give auditors such extensive powers. I think the best approach is still a rule-based system, but even this system needs improvements.

One way to improve our existing system is to actually follow the principle-based approach's outline. This outline presents the principle, the purpose, and a possible exception on a topic. If the rule-based approach gave more guidance, it would be easier to follow. And there would be less room for error and arbitrary judgments. According to a recent FASB proposal "Not only does detailed guidance provide the SEC with an effective enforcement mechanism, auditors have indicated a need for detailed guidance because it limits the ability of the SEC and others to second-guess professional judgments."

At this time, I do not believe that a principle-based approach is prudent. I believe that added guidance to a rule-based approach is necessary and may be a step in the right direction for the accounting profession.