Letter of Comment No: 47 File Reference: 1125-001 Date Received: 12/10/02

My name is Michael Calcagni and I am a junior finance major and accounting minor at Providence College, located in Providence, Rhode Island. I am a student in Intermediate Accounting, a course that explores the conceptual framework of accounting and the basic preparation of the financial statements, while also taking heed to recent developments in the accounting profession. With the switch from rule-based accounting standards to broader principle-based guidelines currently up for debate, my classmates and I have vowed to let our opinions be heard by the FASB and all other relevant parties. However, before doing so, I must make note of the objectives of financial reporting, the goals to be achieved by changing to a more principle-based approach. Financial reporting should provide information allowing investors and creditors to make rational investment and credit decisions and to assess future cash flows, and information about the economic resources of an enterprise and the claims against those resources. Unfortunately, such reporting has failed to attain these objectives recently. Yet, I am not convinced that a transformation to principle-based accounting is the best answer to attain this goal.

The FASB has always developed accounting principles that have been based on specific rules; however, this type of standard setting has been the very cause of recent accounting scandals. Some companies have prepared their financial statements by strictly adhering to accounting principles, but instead have produced figures that have deceived investors and creditors alike. Rule-based accounting standards have provided a safeguard for accountants and auditors from the responsibility that accompanies their jobs. They have simply hid behind the rules instead of asserting their professional judgment when accounting has been performed in a manner that would mislead those who use the information. This abuse has represented a trade-off between the reliability of the information and its relevance. However, I do not recommend that changing to a broader principle-based guideline system is the proper resolution to correct the latest mishaps from continuing throughout the profession and the appropriate means restore the lost

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confidence. Such a change would require that accountants and auditors exhibit a huge amount of sound, professional judgment in determining the accuracy of financial reporting; unfortunately, recent accounting debacles have shown that they are incapable of employing such shrewdness. Also, the application of broader principles instead of specific rules will result in the loss of comparability for investors and creditors. Different accounting practices amongst companies both within and outside respective industries would make it practically impossible for financial information to be compared. Therefore, a change would also call for limits to be put on principles to retain a sense of comparability. Still, based on these two factors alone, I am uncomfortable in recommending broader based principles.

If a change to creating Generally Accepted Accounting Principles in a broader sense is to be successful, it would require a miraculous effort from all parties involved, from the SEC down to Joe Investor. First, the SEC would need to develop principles that provide adequate financial information while at the same time able to restrict any abuses. The principles would require limits that would allow them to still offer some comparability amongst financial information. Next, accountants and auditors need to display a considerable amount of trustworthy professional judgment. Finally, investors and creditors need to be willing to have their good faith restored and to once again trust the financial information that they view. The FASB must ask itself, is this possible for the success of a principle-based guideline system? In my opinion, yes, it is possible; however, I do not believe it is realistic. I would like to thank you for reviewing my commentary on the proposed change to broader accounting principles from rule-specific guidelines. It is my hope that every little bit will make a difference in the resolution of this matter. Both my classmates and myself at Providence College look forward to any feedback the FASB will be offering in the months to come regarding this situation.