

Letter of Comment No: 81
File Reference: 1125-001
Date Received: 12/17/02

Comments

**on FASB Proposal on
Principles-Based Standard Setting**

(File No. 1125-001)

Submitted by the

Technical Standards Forum

of the

Accounting and Assurance Section

of the

Arizona Society of Certified Public Accountants

December 2002

Comments on FASB Proposal on Principles-Based Standard Setting

Technical Standards Forum

of the
Accounting and Assurance Section
of the
Arizona Society of Certified Public Accountants

December 2002

The following comments are the result of discussions held in two meetings of the Technical Standards Forum, a subcommittee of the Accounting and Assurance Section of the Arizona Society of CPAs. A total of eight Arizona practitioners, representing both public accounting and industry, participated in the discussions of this proposal.

1a. Do you support the Board's proposal for a principles-based approach to U.S. standard setting?

YES

1b. Will that approach improve the quality and transparency of U.S. financial accounting and reporting?

YES

Comments (if any):

Under the current rules-based approach, the term 'generally accepted accounting principles' is somewhat of a misnomer in that standards passed may or may not be accompanied by wide acceptance and agreement. A principles-based approach would seem to lend itself to accounting practices that are truly 'generally accepted'.

The quality and transparency of financial reporting would be improved in that practitioners would be required to gain a more thorough understanding of accounting concepts. Accounting treatments that are acceptable under current standards due only to interpretation loopholes would have to pass more difficult and broad reasonableness tests in the minds of practitioners.

2a. Should the Board develop an overall reporting framework as in IAS 1?

YES

2b. If so, should that framework include a true and fair view override?

YES, but this should be quite rare. In order to invoke the override there should be no question that the treatment is reasonable and necessary to avoid being

Comments on FASB Proposal on Principles-Based Standard Setting

Technical Standards Forum
of the
Accounting and Assurance Section
of the
Arizona Society of Certified Public Accountants

December 2002

misleading. Perhaps approval of some kind of panel of practitioners might be required.

3a. Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting?

Interpretive and implementation guidance should be limited as much as possible. If guidance of this type continues to be issued, the principles-based approach will gradually deteriorate back to a detailed rules-based approach. Interpretive and implementation guidance might be appropriate, however, in those circumstances where two or more alternatives are currently acceptable for a given issue.

There is a risk that once conversion to a principles-based approach is complete, various factors could combine to take us back into the equivalent of a rules-based approach. These factors include the following:

- *Interpretive and implementation guidance*
- *Exceptions provided for certain industries or other groups*
- *Litigation that might occur as a result of broader accounting principles*

Should this inadvertent return to a rules-based approach occur, the tremendous effort of changing to a principles-based approach would have been for naught. The risk that this deterioration will happen should be assessed very carefully.

3b. Should the Board be the primary standard setter responsible for providing that guidance?

Yes, the Board is in the best position to provide what little interpretive and implementation guidance is necessary. Having set the standards under the current approach, the Board is best suited to oversee the transition to a principles-based approach.

Comments on FASB Proposal on Principles-Based Standard Setting

Technical Standards Forum

of the
Accounting and Assurance Section
of the
Arizona Society of Certified Public Accountants

December 2002

4a. 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?

Accounting practitioners such as auditors and preparers will be able to make the transition to a principles-based approach over a period of time. The main concern with investors and creditors is that they could eventually bring lawsuits against companies as a result of inconsistent accounting within a given industry and other problems arising from a principles-based approach. These types of lawsuits could tend to force us back to a more detailed rules-based approach.

4b. If not, what needs to be done and by whom?

N/A

5a. What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting?

Benefits:

- *Less complex accounting standards*
- *Easier for practitioners to stay 'updated'*
- *More in line with international accounting standards*
- *Hopefully less accounting fraud and corruption*
- *Perhaps avert further government intervention in the profession*

Costs:

- *Tremendous transition costs including:*
 - *Converting existing standards to a principles-based approach*
 - *Possible need to restate prior financial statements to conform to new standards.*
 - *Training costs for practitioners to learn new standards*
- *Risk of inadvertently returning to a rules-based approach*
- *Terrible media and press for the profession if additional accounting frauds surface under the new approach.*

5b. How might those benefits and costs be quantified?

Comments on FASB Proposal on Principles-Based Standard Setting**Technical Standards Forum**

of the
Accounting and Assurance Section
of the
Arizona Society of Certified Public Accountants

December 2002

The benefits listed above are more intangible in nature and are therefore extremely difficult to quantify in any meaningful way. The transition costs could be quantified by estimating the dollar and time cost of converting the existing standards to a principles-based approach.

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 realize that this proposal reflects the Board's realization of its vulnerability in the current environment of hasty laws and 'quick fixes' for a 'broken system.' The Sarbanes-Oxley Act was hastily passed and we have yet to see the most

6. (continued)

far-reaching of its effects. The Board should endeavor to avoid hasty actions that will significantly affect our profession solely to fight for its own survival.

The switch to a principles-based approach will not be a panacea for the woes we face as a profession. This approach will have its own set of weaknesses and challenges. It is at least reasonably possible, to use a phrase from current accounting literature, that financial reporting will not be significantly improved. And as mentioned before, it is entirely possible that various factors will gradually combine to force us into an equivalent of the rules-based approach from which we are trying to escape.

Therefore, we offer a cautious approval of the Board's proposal to convert to a principles-based approach to U.S. standard setting.