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Proposal for a Principles-Based Approach to U.S. Standard Setting - File Ref 1125-001

Dear Ms. Petrone:

ExxonMobil wishes to comment on the *Proposal for a Principles-Based Approach to U.S. Standard Setting* (the Proposal).

In general, we support the Board's consideration of adopting a principles-based approach to U.S. standard setting. We commend the Board for issuing the Proposal, which effectively frames the debate surrounding the difficulties and benefits of a principles-based approach to U.S. standard setting. This project probably should have been undertaken years ago because the difficulties that rules-based standards have engendered are not new. We have held the view for some time that accounting standards have become too detailed and complex. Our comments to the August 2001 FASAC survey on the question of standards overload stated in part:

Standards overload is damaging the usefulness of financial statements as relevant communication tools. We should all be concerned. The evidence of this can be seen in the growing number of companies that are providing their shareholders with abbreviated annual reports to encourage them to at least open the cover without intimidation. Or the need to publish over a hundred interpretative guidelines for a newly issued standard (FAS 133) before its adoption is required. It is well known that the technical advisory groups of the public accounting firms have become dominant, partly out of fear that decisions of the engagement partner will be second-guessed by the SEC and partly because accounting standards have become too complex and voluminous. We wonder how small firms and their

clients can possibly keep up. These examples should be sending warning signals to the standard setters. The question is what can be done?

Our responses to the requests for comments in the Proposal are as follows:

- 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?**

Exceptions

While we are generally supportive of the proposal, we have some reservations about the implications of the Board's views of exceptions in accounting standards. The Board believes that a principles-based approach cannot be achieved without the elimination of most, if not all exceptions. We agree that principles-based standards should ideally have very few exceptions. However, the Board needs to consider that certain exceptions may result in standards that have more relevance to the underlying economic environments in which companies operate. This should not be ignored. The Board should also not rule out the possibility that there may be something wrong with the premises on which standards with disproportionate numbers of exceptions are based. Before exceptions are eliminated, they should be reviewed critically and objectively. Page 8 of the Proposal indicates that "..... the Board would need to resist pressures to provide exceptions. Other participants.....must accept the consequences of applying accounting standards with fewer exceptions....." We would add to this that the Board must be willing to accept that some exceptions are caused by flawed standards and that the elimination of these exceptions may best be accomplished by revising the standards. FAS 133 provides a useful example.

Attachment A indicates that FAS 133 is complex because of all the exceptions that were demanded by respondents. We agree, but we also believe that the problem is exacerbated by the broad definition of a derivative. Consider ExxonMobil. We have a straightforward business model involving the extracting, refining, and marketing of hydrocarbons and hydrocarbon-based products. Recording volatile gains and losses based on the impact of oil and gas price movements on our contracts would simply not be a fair representation of our business. Yet, this is the accounting that would be prescribed by FAS 133 because our products are commodities traded in worldwide markets. It is only the FAS 138 normal purchases and sales exception that allows us to report results reflective of the economic substance of our transactions, consistent with the way we manage our business and the way investors view ExxonMobil. Clearly the normal purchases and sales exception has widespread application and the accounting that results from it provides relevant information. As such, normal purchases and sales transactions should not have to be exempt from the definition of a derivative by an exception to the standard. Instead the standard should be revised to narrow the definition of a derivative so that it does not include those transactions.

Conceptual Framework Improvement Project

On page 6, the Proposal indicates that the Board would need to commit resources to a project to improve the conceptual framework. We endorse this project because under a principles-based approach the concepts statements need to be robust and generally accepted by all constituents. We would add to the list of items on page 6 a review of Concepts Statement No. 7. In our view the far-reaching provisions of this statement, which result in the recording of fair value amounts that have no relationship to the best estimates on which management decisions are based, were never adequately appreciated or considered by constituents.

**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?**

We would encourage the Board to develop an overall reporting framework and also include a true and fair view override. We believe that such an override along with the appropriate restraints would be useful in ensuring that GAAP is not used to justify accounting that is not reflective of the economic substance of transactions and events.

**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?**

We concur with Mr. Walters dissent on FAS 66 that is cited on page 8 of the Proposal. Providing guidance for applying the standards should be left to the accounting profession using professional judgment and objectivity. His comments about dignifying this guidance as accounting standards were prescient. There was a time when accountants were valued for their judgment, but this has changed. In recent years, many companies came to view accountants as readers of the rules rather than valuable providers of useful information. We believe that rule based accounting standards are one of the several reasons for this diminished stature and principles-based standards will help to reverse it.

Certainly increased professional judgment will result in some lack of comparability because the standards might be interpreted differently. This needs to be accepted by everyone, including the SEC. However, where there are interpretive and implementation issues that have significant and widespread impact there would have to be some venue for providing guidance so that comparability on these issues is maintained. The Board should be the primary standard setter for providing that guidance either directly or delegated to an interpretive body such as the EITF. However, this guidance should address only those issues that are major and should not get mired in one-off issues, which has periodically occurred at the EITF over the years. Also, implementation guidance should be debated in public and have due process, it should not be provided through FASB staff announcements.

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?**

This is a key question. If these constituents cannot change their paradigm, principles-based standards will not work. Again, quoting from our response to the August 2001 FASAC survey, we wrote in part to the question on standards overload:

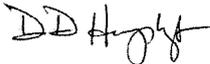
There are no easy answers because there are many contributors to this downward spiral into more numerous and incomprehensible accounting standards. Certainly, the FASB has some responsibility and is in the best position to provide leadership for improvement. However, also culpable are companies who obfuscate poor performance with poor accounting and reporting, auditors who cannot make decisions without EITF guidance and analysts who believe that more detailed disclosure is always better disclosure. Also, the world is much more complex.

We think that this continues to be precisely on point today. In retrospect we also would include as a contributing factor the fear of SEC second-guessing the decisions made by companies and their auditors even when they are made in good faith using sound judgment.

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?**

There are many hurdles to overcome that will have certain associated costs. The Proposal has described many, if not all, of them. However, we believe the benefits that will accrue with principles-based accounting standards will outweigh these costs.

Very truly yours,



Donald D. Humphreys