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Financial Accounting Standards Board
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PROPOSAL: Principles-Based Approach to U.S. Standard Setting (File Ref. No. 1125-001)

Prudential is pleased to take this opportunity to provide a response to the FASB Proposal captioned above, in support of the Board's continuing efforts to improve the quality of financial accounting and reporting in the United States. We are a significant end-user of financial statements, with over \$500 billion in total assets under management or administration, and therefore are very interested in the Board's activities in this area.

Concepts statements

We agree with the acknowledgement in the proposal regarding the existence of issues with the Financial Accounting Concepts statements. We encourage the Board to improve these statements, by making them complete, clear and consistent. Improving these statements would improve the standard-setting process and is therefore worthwhile, regardless of the Board's conclusions with respect to changing to a principles-based approach.

As part of the process of improving the concepts statements, or perhaps as part of the establishment of the overall reporting framework discussed in the proposal, the Board should engage in an open debate over the primacy of the balance sheet versus the statement of operations. While both statements are of importance, there is a disconnect between the Board's tendency to focus on the balance sheet when issuing guidance, and the market's focus on the predictability of the income statement. The investment community must be heavily involved in this debate.

We would hope that one impact of this process would be the development of concepts that will result in accounting standards that will enhance the type of information provided to investors and analysts. We believe that investors and analysts find the concept of operating income a useful concept, particularly as it helps the reader to understand the quality of earnings on a consistent basis. We believe a narrower and more workable definition of operating income needs to be developed, such that operating income could

be incorporated onto the face of the income statement, on a basis that would be comparable across companies.

Once the concepts are firmly established, all of accounting guidance should then be challenged for consistency with those statements. The Board could save until that point their determination about whether to change to a principles-based approach.

Rules-based approach

We believe it is appropriate for guidance to be grounded in underlying concepts and fundamental principles and would argue that there are principles underlying much of US GAAP today, with some cases being more explicit than others. Rule-making in US GAAP is, in our view, an extension of those principles; the rules address the application of those principles, and are provided by the FASB and other interested parties to promote comparability across companies and to aid in implementation.

We do not believe that GAAP is overburdened with rules. Rather, we find rules useful, particularly in that they create boundaries within which companies can operate on a more level playing field with competitors.

Principles-based approach

We encourage the Board to develop clear statements of principles to be incorporated into new or amended guidance. However, we also encourage the Board, the EITF and the AICPA to continue to provide implementation guidance, particularly where complex issues are involved or divergence in practice exists.

Our concern with principles-based statements is that without further guidance they would result in a lessening of comparability among financial statements. Accounting firms would develop positions, which may not always be consistent across firms; industry groups would develop positions, which may not be consistent within and across industries; and the SEC would develop reactive and conservative that may lack due process.

Sincerely,

Anthony S. Pizsel
Senior Vice President & Controller