



Texas Society of  
CPA Certified Public Accountants

Letter of Comment No: 133  
File Reference: 1125-001  
Date Received: 1/24/03

January 20, 2003

Financial Accounting Standards Board of the  
Financial Accounting Foundation  
File Reference No. 1125-001  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

RE: Principles-Based Approach to U.S. Standard Setting

To Whom It May Concern:

The Financial Accounting Standards Board (FASB) has issued a proposal for a principles-based approach to U.S. standard setting. The proposal, file reference no. 1125-001, is dated October 21, 2002, with a comment deadline of January 3, 2003.

The Professional Standards Committee (PSC) of the Texas Society of Certified Public Accountants, reviewed and discussed the proposed change in approach to standard setting at its meeting on December 19, 2002, including discussion of the issues raised by participants in the FASB roundtable discussion on December 18, 2002. Based on its discussion, PSC has taken the position that it is not in favor of a FASB initiative to change its approach to standard setting but, rather, that FASB should devote its time and resources to completing the overarching accounting concepts that should constitute the framework within which accounting standards are set.

There is general agreement among PSC members that most accounting and financial reporting failures do not result from deficiencies in accounting standards as much as from a willful intent to circumvent existing standards in order to achieve a predetermined outcome. The current rules-based approach to standard setting results in standards that address specifically defined facts and circumstances. This approach is seen as permitting entities who wish to achieve a different result to alter their fact situation, thereby recognizing form over substance of a transaction. PSC believes that FASB can improve compliance by emphasizing in its pronouncements that economic substance of a transaction may override applicability, or non-applicability, of a rule.

Transition to a principles-based approach would not eliminate form over substance issues but would, instead, substitute differences of judgment for differences of facts. PSC believes that fact issues, considered in the context of an improved conceptual framework, can be addressed more objectively and will result in greater consistency in financial reporting than would result from divergent views on the applicability of a principles-based standard. In today's financial markets, reliance on consistent treatment of similar events in financial reporting is considered of paramount importance.

PSC agrees that today's dynamic global business world is contributing to the standard-setting problems confronting financial accounting and reporting. Transactions that could not be envisioned ten years ago are commonplace today. This rapid change challenges the accounting profession to stay abreast of the public's need for reliable and understandable information with standards that identify and appropriately measure and classify economic events. PSC believes that the challenge can best be met by FASB under the current rules-based approach, complimented by (1) improvements in the conceptual framework that address changes in economic activities, (2) more complete codification of existing standards (including pronouncements of the Emerging Issues Task Force) and (3) increased attention to, and emphasis on, substance over form and disclosure of exceptions claimed.

We are aware that we are submitting our response after the comment deadline since our deliberation and review process took longer than expected. We hope, however, that you will consider our views when formulating your approach in the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Hoffman', with a long horizontal flourish extending to the right.

Gary S. Hoffman, CPA  
Chairman, Professional Standards Committee  
Texas Society of Certified Public Accountants