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From Peter Wyman
President

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Dear Ms. Petrone

A PRINCIPLES-BASED APPROACH TO U.S. STANDARD SETTING

The Institute of Chartered Accountants in England and Wales welcomes publication by the Financial Accounting Standards Board ('the Board') of its *Proposal for a Principles-Based approach to U.S. Standard Setting*.

The quality of financial information provided to capital markets in the United States is an issue of global economic significance, particularly in view of the recent agreement between the Board and the International Accounting Standards Board. The Institute applauds the Board's proposal to develop accounting standards that are less detailed and complex. We believe, that an approach to standard-setting based primarily on principles rather than prescriptive rules is more likely to deliver high quality and transparent financial information since it focuses on a positive view of the objective of financial statements.

In our view, an approach based on principles has a number of significant advantages. For example, the use of principles should result in clearer and more understandable standards and will reduce the opportunities for circumventing the intentions of standard-setters. The principles should be sufficiently flexible to accommodate complex and unforeseen eventualities and changes in the financial and economic environment.

The principles expressed in standards should be linked clearly to the over-arching principles articulated in the applicable conceptual framework. There should consequently be few or no scope exemptions from the standards. They should also be underpinned by examples of implementation guidance to illustrate how the principles should be applied. However, supplementary rules and guidance should not be so extensive and complex that the principles are obscured, and in our view should be issued exclusively by standard-setters.

We believe that a single set of robust and well-understood standards is far more effective in promoting high quality financial reporting than a complex and diverse body of accounting literature. This requires standard-setters to monitor accounting practices closely and to issue timely amendments to standards at a high level, as the need arises.

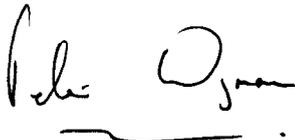
A principles-based approach to standard-setting can succeed only if the behaviour of all participants in the financial reporting process is consistent with the over-arching objectives of ensuring that financial statements present a 'true and fair view' and explicitly discouraging interpretations that stretch the boundaries. This presents two fundamental challenges.

Firstly, companies and their auditors need to be fully and demonstrably committed to implementing the spirit and intent of the standards in the public interest. In particular, they should select the most appropriate accounting policies, i.e. those most likely to convey economic reality to users of financial statements. They must address new and unusual transactions and other events through the exercise of professional judgement and without frequent requests to standard-setters to elaborate additional rules and implementation guidance.

Secondly, standard setters, securities regulators and other users of financial information must not undermine the willingness of companies and auditors to exercise appropriate judgement. They also need to accept that in exceptional circumstances it may be appropriate for a 'true and fair' override of the specific requirements of a standard to be invoked to ensure that the overriding objective that financial statements do not misrepresent economic reality is met.

I hope that the Board finds these comments of interest. Please let me know if require any further information or clarification.

Yours sincerely,


Peter O'Connell