

January 3, 2003

Financial Accounting Standards Board
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Letter of Comment No: *it 3*
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director@fasb.org

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Dear Sir and Madam:

The National Association of College and University Business Officers (NACUBO) continues to appreciate the board's openness to public comment and its efforts to analyze the recognition, measurement and reporting complexities of accounting standards. We are hopeful that this process will result in improved standards to serve the needs of various constituents. NACUBO represents Chief Financial Officers at more than 2000 colleges and universities.

NACUBO understands that the Proposal for a Principles-Based Approach to U.S. Standard Setting seeks to improve the quality of information provided to the public by shifting the focus from transaction specific rules to the underlying concept or principle that is fundamental to the recognition, measurement, and reporting requirements of an accounting standard. NACUBO's comments on the proposal were developed with input from our Accounting Principles Council. The council consists of higher education industry representatives, volunteers from member institutions, who are knowledgeable in a variety of matters including external financial reporting, governmental accounting and reporting, not-for-profit accounting and reporting, managerial accounting and reporting, and financial analysis.

Generally, NACUBO agrees with the intent of the proposal, however, our comments are organized around the following reservations:

1. Guidance and industry clarification
2. Professional judgment and comparability
3. Transition

1: Guidance and Industry Clarification

The Board believes that with principles applied more broadly than under current standards there would be less need for interpretive and implementation guidance. In support of the higher education industry, a good deal of NACUBO staff time is spent researching accounting guidance and pointing members to the correct literature or literature interpretation. On the one hand, we agree that sound foundational principles with less detailed guidance would reduce confusion when looking for authoritative literature. On the other hand, we believe industry practices could be distinct enough to warrant relevant guidance and implementation rules for a given industry.

The Board acknowledges that the recent Sarbanes-Oxley Act requires the Securities and Exchange Commission to study the adoption of a principles based accounting system. Although colleges and universities are generally not subject to rules and regulations of the SEC, it seems reasonable that our industry have guidance that addresses pertinent recognition, measurement, reporting and disclosure requirements. As such, NACUBO anticipates that it would continue to serve its members by analyzing and interpreting relevant guidance to determine the most appropriate manner of implementation for higher education.

2: Professional Judgment and Comparability:

Standards that provide less interpretive and implementation guidance will enhance the need to apply professional judgment consistent with the intent of the accounting principle. The Board notes that the environment must not inhibit auditors and preparers from using professional judgment in applying and interpreting principles-based standards. Additionally, professionals ought to commit to faithful representation of results and not yield to client pressure.

NACUBO believes that the profession is already committed to the optimum presentation of results and it is less than fair to propose a sweeping change that implies otherwise. Professional judgment is a quality shaped by education and experience. Because education and experience can be significant variables, it is reasonable to assume that differences of opinion or judgment will always exist among professionals. The proposal ought to carefully address natural variations in judgment that could impact consistency of results (within an industry or between similar industries). This is especially necessary since consistency and comparability are also important to a public attempting to understand and evaluate information. For higher education, consistency and comparability of financial results is essential to a public's understanding of the complexities driving the cost of educating current and future generations.

3: Transition:

As previously mentioned, NACUBO is in general agreement with the intent of the proposal. Its tone, however, is general and philosophical. Although the proposal touches upon the pros and cons of a principles-based approach, little is done to address the need for an adequate transition plan for such a dramatic change. It would be helpful if the Board shared its current thinking on future projects with their estimated timelines; for example, anticipated concept statement changes, structural changes at the FASB and its approach to its mission, a plan for addressing existing standards and proposed standards, and industry guidance.

In closing, we appreciate consideration given to our comments and look forward to continued progress related to the current proposal. Please address questions or feedback to Sue Menditto, Manager, NACUBO Accounting and Finance Programs at 202-861-2542 or Susan.Menditto@NACUBO.org, or Larry Goldstein, Senior Fellow, NACUBO at 540-942-9146 or Larry.Goldstein@Campus-Strategies.com.

Very Truly Yours,

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