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From: James Kieft [mailto:James.A.Kieft.1@nd.edu]
Sent: Friday, January 03, 2003 3:20 PM
To: director@fasb.org
Cc: Andrew.M.Paluf.1@nd.edu; Thomas.J.Guinan.1@nd.edu;
Jason.Little.12@nd.edu; Jason Michael Schroeder
Subject: Proposal - (File Reference 1125-001) Principles-Based Approach
to U.S. Standard Setting

Letter of Comment No: 118
File Reference: 1125-001
Date Received: 1/3/03

Gentlemen:

Attached is the University of Notre Dame Financial Reporting and Analysis Group's response to the FASB's request for comments on the above referenced proposal.

We appreciate the opportunity to participate in this initiative.

Sincerely,

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**Financial Accounting Standards Board
Proposal
Principles-Based Approach to U.S. Standard Setting
File Reference No. 1125-001
Comment Deadline: January 3, 2003**

The following narrative represents the University of Notre Dame Financial Reporting and Analysis Group's collective response to the Financial Accounting Standards Board's request for comments on the above referenced proposal:

Question #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?

University of Notre Dame Response:

We support the Board's proposal for a principles-based approach to U.S. standard setting. We believe this is an important step for the FASB to undertake for all of the reasons cited in the proposal, particularly for purposes of reducing the level of complexity and the number of exceptions that may be applied under varying circumstances.

Generally, a principles-based approach to U.S. standard setting should improve the quality and transparency of U.S. financial accounting and reporting provided resulting standards are written to be understandable and implementable as pointed out in the proposal.

One question that comes to mind is: What format will the standards follow and how, if at all, will existing rules-based standards be impacted as a result of a change to a principles-based approach to U.S. standard setting?

Question #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?

University of Notre Dame Response:

The creation of an overall reporting framework to include guidance on various issues such as assessments for materiality, going-concern, professional judgments, accounting policies, consistency and presentation of comparative information would be an important step in strengthening financial reporting. The most important reason to do so would aid the user in assessing the relevance and understandability of reported financial information.

The ability to override an applicable accounting standard to deal with those rare circumstances in which management concludes that misleading reporting would occur

without the ability to provide a true and fair view should be considered to provide some measure of reporting flexibility, but only if material departure from the underlying principles in the standards does not occur.

If a true and fair view override is ultimately permissible, it would seem prudent to require appropriate disclosures in audited financial statements, SEC filings, etc. in order to provide users with relevant details as to the comparability of information.

It would seem preferable to have the standards written clearly and concisely and be as all-inclusive as practicable to accommodate those instances occurring which would suggest the use of override reporting without actually using language describing an override in the overall reporting framework guidance.

Question #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?

University of Notre Dame Response:

Generally, we believe it is important to have access to interpretive and implementation guidance when assessing the impact and extent to which a standard affects our institution. Practical guidance should be provided and is very helpful in determining the steps required to implement a particular standard.

For example, in implementing SFAS 116 and 117, the guidance provided by various organizations including NACUBO and various national CPA firms was invaluable in aiding our implementation efforts. Given our experience with guidance provided by these and similar organizations, it would seem appropriate to have the FASB (1) be the primary author and authoritative provider of that interpretive and implementation guidance and (2) not be restrictive in permitting alternative guidance that does not alter or invalidate the principles set forth in the standards.

Question #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?

University of Notre Dame Response:

While it is likely all constituencies and users of financial information will ultimately accept and become comfortable with a principles-based approach to U.S. standard setting, it is also extremely likely this will take some time to occur.

The relatively recent introduction of the Sarbanes-Oxley Act of 2002 and its new regulatory and disclosure requirements certainly seems to provide the impetus for change.

As much as financial reporting flexibility is desirable and should have its place in our economy, the fact remains that investors and users of reported financial information who depend upon its accuracy, timeliness, relevancy, comparability and consistency, should presumably welcome a principles-based approach to U.S. standard setting.

One observation that seems to warrant some comment is how easily and cost effectively independent auditors will adjust to a principles-based approach to U.S. standard setting. Given the traditional audit approach to rules-based standards, there may be significant changes needed in audit techniques and training required as auditors' judgment will be relied upon to a much greater extent. Such changes could have a significant impact on the cost structures of independent audit engagements.

Question #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?

University of Notre Dame Response:

As pointed out in the proposal, the most significant benefits and costs of adopting a principles-based approach to U.S. standard setting seem to be summed up by the statement, "The result of the adoption of a principles-based approach to standard setting would be high-quality accounting standards that improve the transparency of financial information essential to the efficient functioning of the economy"

The costs of such a project would seem at best difficult to quantify, while the benefits appear to be more obvious. Some costs, particularly those related to audit engagements, could be materially impacted as was pointed out in answer to question #4, but not necessarily on a recurring basis. Significant costs may be required in training and re-training audit staff as well as added costs associated with continuing professional education required as a result of a new standard-setting methodology.

Question #6 What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?

University of Notre Dame Response:

Beyond the basic requirement to develop standards that are broader and less complex, the Board should recognize the degree of difficulty placed on those responsible for an organization's financial reporting function and provide meaningful guidance that is not onerous.

Members of the Accounting community are generally able to apply professional standards to their organization's activities, but can only be expected to do so consistently and reliably if the standards are prescriptive but not excessively detailed and complex.

It will likely be helpful for the Board to consider international benchmarks, in particular those standard setting policies in the United Kingdom, to help guide the development of the U.S. Principles-Based standard setting policies and guidelines.

The Board should also take into consideration the fact that business rules are diverse across the spectrum of industries and as a result there is a natural tendency to adapt the standards to the environment in which the business operates.