

January 3, 2003

Letter of Comment No: 109
File Reference: 1125-001
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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposal
Principles-Based Approach to U.S. Standard Setting
File Reference No. 1125-001

Dear Board Members:

The National Rural Electric Cooperative Association (NRECA) is the not-for-profit, national service organization representing 930 rural electric systems providing electricity to more than 36 million consumer owners in 47 states. Of the 930 rural electric systems, 64 are generation and transmission cooperatives (G&Ts) that are owned by and sell power at wholesale to some 750 of the 866 electric distribution cooperatives.

As borrowers of the Rural Utilities Service (RUS), an agency of the U.S. Department of Agriculture, most of the nation's G&Ts and distribution cooperatives are subject to oversight and accounting regulation of the RUS. Substantially all of the remaining G&Ts and distribution cooperatives, which are not RUS borrowers, are subject to the ratemaking and accounting jurisdiction of the Federal Energy Regulatory Commission (FERC).

To facilitate their oversight of electric cooperatives, both RUS and FERC promulgate a Uniform System of Accounts (USoA) to be used by electric cooperatives. The RUS USoA is substantially similar to the USoA promulgated by FERC. The FERC and RUS USoAs both interpret and, in some cases, place limits on GAAP accounting requirements for jurisdictional entities.

NRECA is responding to the questions posed by the Financial Accounting Standards Board (FASB) in its Proposal on a Principles-Based Approach to U.S. Standard Setting (File Reference No. 1125-001) on behalf of its membership with the advice and counsel of the G&T Accounting & Depreciation Committee, a subcommittee of the G&T Managers' Association Technical Advisory Committee. The G&T Accounting & Depreciation Committee is charged with responsibility for addressing emerging and evolving accounting and financial reporting issues.

FASB Questions and Responses

- 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?**

NRECA supports FASB’s proposal for more principles-based accounting standards. NRECA notes that principles-based standards were once the norm in the U.S. When the Accounting Principles Board issued its Opinions, these standards were almost always broad statements of applicable accounting concepts. Over the past twenty or so years, however, new accounting standards have included an ever-increasing number of exceptions to a general concept. The result is almost unworkable complexity in current GAAP requirements, so that even knowledgeable CPAs are confused and frustrated by the maze of rules. One can only imagine how financial statement users with less formal training in accounting can understand and interpret the financial information presented.

Highly complex GAAP requirements lead to other problems, as well. For example, rulemaking by exception can oftentimes prove counterproductive to achieving a basic accounting concept, as well-meaning preparers and auditors treat the rules as “bright line” tests, rather than attempting to comply with the spirit of the underlying accounting concept.

If applied with integrity by preparers and auditors, standards based on broad concepts with few, if any, exceptions – and coupled with complete and concise footnote disclosure – should significantly enhance the quality and transparency, and resulting usefulness of financial statements.

- 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?**

NRECA believes it would be very useful for FASB to develop and publish an overall reporting framework, similar to IAS 1. NRECA has encountered and struggled as a financial statement user with significant variation in practice regarding such issues as materiality thresholds, disclosure of relevant accounting policies, and consistency in financial reporting. While it would be virtually impossible for a FASB pronouncement covering these matters to eliminate all variation in practice, FASB guidance on these issues would, nonetheless, undoubtedly enhance financial statement consistency.

If true and fair value override is allowed, it should be used only in extremely rare and unusual instances. In cases where the override is used, disclosure describing the effect of override and the reason(s) why the override is necessary should, of course, be required in the financial statement footnotes.

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?

In general, FASB should not be the standard setter responsible for providing interpretive and implementation guidance for accounting standards. As FASB points out in its discussion of principles-based standards, the practice of providing interpretive and implementation guidance has contributed significantly to the high level of detail and complexity in recent accounting standards. In addition, interpretive and implementation guidance, which of necessity usually varies to one degree or another from industry to industry, can be extremely time-consuming to develop – leading to delay in FASB issuance of needed accounting literature.

Rather, interpretive and implementation guidance should be provided by applicable regulatory bodies (for regulated industries such as financial services, energy/utilities, and telecommunications), or by the AICPA and its committees (for industries without such regulators). Such bodies have much more detailed knowledge of a particular industry than FASB could ever acquire and should, therefore, be in a better position than FASB to develop timely interpretive and implementation guidance for their industry, consistent with FASB's general principles-based concepts.

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?

Among the regulated industries, of which NRECA members are a part, preparers, auditors, and financial statement users are already well accustomed to the enterprise's compliance with accounting regulation as imposed by the applicable regulatory body. Likewise, the AICPA committee structure is largely in place (although perhaps some new industry committees may need to be added), and practitioners are accustomed to that level of GAAP. Transition by FASB to a more principles-based approach should not, therefore, be difficult – consisting mainly of clear FASB communication of its intents with regulators, the AICPA, and financial statement preparers and users.

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?

The benefits of adopting a principles-based approach to standard setting include the following:

- FASB accounting guidance that is broader and more conceptual – and thus conceptually easier for preparers, auditors, and financial statement users to understand.

- FASB ability to develop and publish more timely accounting guidance.
- FASB accounting guidance at a level more consistent with that of the IASB – facilitating international convergence when appropriate.
- Industry-specific accounting guidance that is concentrated with one or a few sources – and thus easier for preparers, auditors, and financial statement users to identify and locate.
- Industry-specific accounting guidance developed broadly by a multiple groups – enhancing the “buy-in” and overall understanding of both the underlying accounting concept and specific industry interpretive and implementation guidance.

The costs of adopting a principles-based approach are as follows:

- Added cost of FASB coordination with regulators and AICPA committees developing interpretive and implementation guidance.
- Risk that a regulator or AICPA committee would fail to adopt interpretive and implementation guidance for an industry consistent with FASB intent (but proper communication between FASB and the regulator/committee should make this risk remote).

While many of the above benefits and costs are intangible and difficult to quantify, NRECA believes that the benefits clearly outweigh the costs.

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?

NRECA believes that FASB should develop accounting standards only at the level necessary to convey an overall concept that must be applied, along with the required implementation date. Industry-specific requirements imposed by FASB should be kept to a bare minimum, but rather raised by FASB with the applicable regulator/AICPA committee responsible for providing accounting guidance for that industry.

NRECA appreciates the opportunity to provide comment on the FASB Proposal for adopting a Principles-Based Approach to U.S. Standard Setting. If questions arise as a result of these comments, please feel free to contact Steve Piccara at (703) 907-5802 or steve.piccara@nreca.org.

Sincerely yours,

Stephen J. Piccara
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 National Rural Electric Cooperative Association