

**Washington Society of Certified Public Accountants**  
**Accounting Auditing and Review Services Committee**

902 140<sup>th</sup> Avenue N.E.  
Bellevue, Washington 98005-3480

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Financial Accounting Standards Board  
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Via Email

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Ladies and Gentlemen:

We are pleased to provide our comments on the *Proposal for Principles-Based Approach to U. S. Standard Setting*. Our comments are organized as responses to the questions posed in the Proposal.

- 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?**

The Committee does not believe the two methods (principles-based and detailed statements) are mutually exclusive. As posed, the question implies that under a principles-based approach no implementation or other guidance can be provided, and still be a "principles-based" method. We do believe this to be the board's intent or constitute a realistic possibility. Given that context, the Committee believes overriding principles would improve the quality of U.S. financial accounting and reporting. We are not sure what the board means by the term transparency.

Our current problem is that GAAP is comprised of detailed rules, and members of our profession have taken to treating those accounting rules more like tax rules, i.e., things to work around, rather than comply with in spirit. Guidance is fine and should continue in standards setting. Detailed rule writing, with the associated perspective of meeting the letter of the rule but maybe not the intent is what our profession must change.

The Committee also feels that due to the litigious environment currently faced by CPA's there could be a reluctance to adopt a more judgmental approach. Several members of the Committee believe that a "hiding behind the rules" mentality exists, it has not been persuasive in the courts.

- 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?**

Yes, the Board should develop an overall reporting framework and yes, there should be a true and fair view override. If following the rules leads to misleading financial information, the CPA should insist that the information be adjusted so that it is not misleading, and disclosure of the departure and the reasons for the departure. The Committee believes this is already part of our standards. It seems however that it is being ignored, especially within the highly motivated public financial statement environment.

- 3. Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to US standard setting? Should the Board be the primary standard setter responsible for providing that guidance?**

The Committee believes that “interpretive” guidance will be necessary for two reasons: (1) the principles are not written in simple enough language and therefore interpretive language is required to explain what the words mean, and (2) to accommodate exceptions to the principle whereby significant comparability issues might surface. The extent of guidance will depend on the facts and circumstances of the accounting issue. The Committee does not see any reason why the Board should not continue as the primary standard setting responsible for providing guidance.

The profession may also experience a transition period during which guidance might also be helpful.

- 4. Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to US standard setting? If not, what needs to be done and by whom?**

Yes, the Committee believes all of the parties to U.S. financial reporting will be able to adjust to a modified approach. In fact, a principles-based method could actually reduce the number of standards to which one must be aware. Perhaps there has been too much rule making in an attempt to achieve financial statement comparability. Rather than prescribing how every transaction should be recorded, and how every asset and liability is to be presented, perhaps it would be better in some situations to simply require disclosure so the user can adjust as necessary to suit his/her purpose.

- 5. What are the benefits and costs (including transition costs) of adopting a principles-based approach to US standard setting? How might those benefits and costs be quantified?**

The principal benefit is intangible – greater confidence in financial information. It cannot be quantified just as the value of a priceless art object cannot be quantified. The financial information is trusted, or it is not.

The costs of adopting a principles-based approach to standard setting must be evaluated against the costs that would continue under the old method. Given our belief that the new

approach may result in fewer overall standards and new standards issued with less frequency, certain costs might decrease.

The costs of re-writing the accounting literature fall into two categories – the costs to the promulgators, and the costs to the users. The costs to the promulgators could be significant as the entire body of literature will need to be reviewed and re-written as necessary. The Committee believes a priority structure could be put in place to determine which standards should be evaluated near term as opposed to standards that do not seem to be causing problems.

The cost to users will stem from training on new standards as they are issued and costs of communications between parties. With more judgment coming into play, we believe the independent accountant will need to be more involved contemporaneously with their clients. It appears to us the costs could be significant in the near term with an equalization, if not lower cost in the future.

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

The Board must recognize that no matter how tight it thinks the rules are written, from the moment the rule is published there are people working on how to get around it. Essentially, the problems that profession has faced come down to management and auditor judgment. The only principle that really matters is whether the financial information tells the real story, true and fair view if you like. Independent accountants and corporate executives have to be held to this principle.

Respectfully submitted

Edward J. Petersen  
Chair