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**From:** Norlin Rueschhoff [mailto:Norlin.G.Rueschhoff.1@nd.edu]

**Sent:** Saturday, January 04, 2003 8:30 PM

**To:** director@fasb.org

**Subject:** Comments on Proposal (File Reference 1125-001)

**Letter of Comment No:** 115  
**File Reference:** 1125-001  
**Date Received:** 1/4/03

File Reference 1125-001

Comments on Proposal: Principles-Based Approach to U.S. Standard Setting

**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?**

Certainly, the Board's proposal for a principles-based approach is commendable and supported by the traditional, historical role of the Certified Public Accountant before rules-based promulgations became prominent, leading to more legal issues and accounting firm costs. Without doubt, the approach will improved the quality and transparency of U.S. financial accounting and reporting because it will require a more professional approach to the work of the public accountant and the financial statement preparer as trustworthy intermediaries in the industrial and financial world.

**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?**

As IAS 1 was originally conceived to provide a basic conceptual framework when it was issued in 1975, it permitted issuance of sound accounting principles which were essential synchronized with the completion of the Comparability Project. Such a simple framework, in effect before the

lengthy, complicated set of Statements of Basic Concepts were issued in the 1970s, should permit the British conceived true and fair view override so that audit firms will keep quality and transparency uppermost in their financial statement and disclosure presentation.

**3. Under what circumstances should interpretative 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?**

Under no circumstances should interpretative and implementation guidance be provided under a principles-based approach. The FASB should be the primary standard setter. As a start, Level D GAAP should no longer be considered authoritative, and Level C GAAP as well. With a principles-based approach, these levels will no longer be necessary. Suggested interpretations and guidance means that the basic principles need to be more clearly stated. What should be more authoritative is a set of concepts that such basic concepts as "economic substance over legal form". Once the legal form gets priority such as for FAS 133, more bookkeeping rules become necessary for every type of legal document.

**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? How might those benefits and costs be quantified?**

Some adjustments, primarily educational in nature, may be needed for financial statement users in moving toward a principles-based approach. First of all, the FASB must prepare a Statement of Basic Concepts similar to IAS 1 with an integration of the revenue recognition principles in IAS 18. The statement must be more simply stated including a comprehensive hierarchy that includes the going-concern concept, the concept of economic substance over legal form, a full disclosure concept, and accrual accounting concepts. Then the AICPA may need to consider the content of

its annual Accounting Trends and Techniques for reporting information on these concepts and any true and fair view override for full disclosure and transparency.

**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 primary upfront costs of adoption are principally reappropriated funds within the FASB. The FASB staff will need to research the development of basic concepts, including the inadvertent abandonment of key concepts such as "economic substance of legal form", a key concept applicable to consolidated financial statements. The major benefits should be a great reduction in law suits and indemnities. Following a principles-"based on basic concepts" approach may required more professional judgment but lessen the overwhelming amount of bookkeeping rules memorization. Any academic teaching the basic principles of accounting realizes that future accountants should be concentrating on learning the basic accrual concepts in order to avoid nonsensical memorization of all the debits and credits for every kind of transaction. As the FASB adopted more detailed rules and, one could argue, rules that depart from basic accounting concepts, the amount of legal costs has certainly not dwindled. A higher level approach appropriate to professionals should highlight the professionalism of auditors and accountants, certainly a great society benefit.

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

A major factor for consideration is the format of the FASB standards. In this respect, the suggested revised Statement 34 shown as attachment B is a great illustration. A paragraph such as paragraph 1 is ideal in that it refers to a basic accounting concept, the cost principle. Each standard hereafter should tie-in a basic concept set forth in a simple conceptual framework. Further, the bold-facing of the standards with explanations in plain type has been an outstanding

feature of the International Accounting Standards (as mentioned in footnote 8 of the Proposal), a feature that simplifies the comprehension of the standard. Furthermore, a basic statement of accounting and disclosure concepts needs to be coordinated with and even jointly issued by the IASB, the EU community, the World Bank, a significant number of widely respected national accounting standard setters, and the International Association for Accounting Education and Research (the worldwide academic accounting group).. To aid the transition process, the FASB may consider establishing visiting professorships, those who teach and deeply understand the basic concepts.

Respectfully submitted:

Prof. Norlin Rueschhoff

University of Notre Dame

309 Mendoza College of Business

Notre Dame, Indiana 46556

Tel: 574-631-6280

Fax: 574-631-5255