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December 13, 2002

TO: The FASB

FROM: Sarah Clausius (Providence College)

SUBJECT: Principles-Based Approach to U.S. Standard Setting

Letter of Comment No: 76 File Reference: 1125-001

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This memo is in response to the recent debate on whether the adoption of a principles-

based approach to U.S. standard setting would be more useful and appropriate for all

users of financial statements and the United States economy as a whole. As a student

studying accountancy at Providence College, I feel as if I am well informed and educated

on this topic.

I support the proposal to change accounting approaches. It is obvious from the

accounting scandals as of late, that a change may be necessary to provide the readers of

financial statements with more accurate information. I think that the implementation of a

principles-based approach would result in higher quality and more transparent financial

statements.

One reason I believe this would occur is that accountants and auditors would be forced to

assume more responsibility with a subjective approach. With the increasing complexity

and detail of the rules-based approach over recent years, those who prepare financial

statements were able to stay within the rules but still alter and engineer the outcome of

the information by increasing earnings or decreasing debt. A change in approaches

would make it much more difficult for this to occur, and would force those who prepare

financial statements to focus solely on the intent of the principle.

Another reason why I support a change in accounting principles is that United States

GAAP would become more in-line with that of International Accounting Standards.

With business becoming more and more global each day, I feel it is important for

accounting principles to be similar throughout the world for comparability and

consistency.

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In addition, a principles-based approach would decrease the amount of guidance that is presently necessary with a rules-based approach. Currently, the rules are so complex and detailed that there are many situations that occur that do not fit neatly into a specific rule. These issues then need to be addressed one-by-one by an authoritative board in order to be resolved which proves to be very time consuming. With a principles-based approach, accountants and auditors would use their educated and subjective opinions to determine how these issues should be reported.

Finally, another reason to change approaches is simply because the existing way does not appear to be working as well as it should be. Financial statement users are being misled by inaccurate information and in turn, the economy is affected because of the lack of trust that has developed. Altering the method will convey to the users that the FASB is very concerned about what has recently been happening and consequently, users may begin to build up trust again, therefore, positively influencing the economy.

I think that preparers, auditors, the SEC, investors, creditors, and other users of financial information will be able to adjust to a change in approaches. I feel that many people involved understand the severity of what has recently been taking place in the accounting world. While it will take time, effort, and money, users know that in order to get the economy back on track and start rebuilding respect for the accounting field, a change is necessary. For this reason, I feel that everyone will make a strong effort to adjust to the change if it were to be made, and will do what is needed to support the transition.

I am very interested in this topic and would greatly appreciate it if I could be keep up to date about what occurs at the upcoming roundtable discussion.