

Letter of Comment No: 666

File Reference: 1125-001

Date Received: 12/12/02

TO: Financial Accounting Standards Board  
FROM: Benjamin Zampello  
DATE: December 12, 2002  
SUBJECT: Recommendation not to employ a principle-based approach to U.S. standard setting.

My name is Benjamin Zampello and I am in my second year of studying accounting at Providence College. As part of the final exam for my intermediate accounting class I am responding to the recent proposal for a principles-based approach to U.S. standard setting. My accounting course continues in the spring semester, so any type of response you can provide would be greatly appreciated.

The issue of changing the approach of standard setting in the U.S. is of crucial importance because any alteration would have immense ramifications for the capital marketplace. It is my recommendation that a principle-based approach not be implemented in the U.S., but rather some changes to the current rule-based system be made.

The foundation of this recommendation is that changing to a principle-based approach would require a great amount of labor and capital, with no guarantee of more transparent information. In fact, I believe the information provided to the public would be less reliable and comparable under a principle-based approach. The information may be less reliable because a principle-based approach would leave much more discretion and interpretation to the auditors. As a result of this increased freedom different acceptable accounting methods may be employed in different industries, leading to less comparable information. Different auditors, making decisions in good faith about similar transactions, may have conflicting interpretations.

Also, it would be rather difficult for users of financial information to adjust to such a drastically different system. Under a principle-based system it may be more difficult to figure out exactly what the company did. I admit that the current system does have its flaws, but in most cases financial statement users with some background in accounting should be able to understand what the information represents.

In addition, I believe that a change of this magnitude is not warranted at this time. I am aware of the recent accounting scandals such as Enron, WorldCom, and Tyco, but I am still convinced that the current rule-based system will result in information useful to

decision makers. The problem with the current system is not with the rules themselves, but rather it is a deficiency on the part of the management of the companies and the auditors. The main objective of these two parties is no longer to provide the most transparent information to users of financial statements. It simply does not make sense to give more responsibility and judgment to these groups.

In order to address this ethical dilemma, I believe the solution lies in education and some changes to the current system. Colleges and universities around the country need to put more emphasis on business ethics and introduce more case studies into their accounting curriculums. Case studies will better prepare students for the tough problems they will face in the accounting and auditing industry, and business ethics courses will direct students on how to deal with these issues. As far as the current system goes, I think the Sarbanes-Oxley Act is taking a step in the right direction by forming the Public Company Accounting Oversight Board, but more small-investor input is still needed.

I strongly advise the FASB to consider making more changes to the current structure rather than introducing an entirely new accounting system. The expected benefits to be gained from implementing a principle-based system do not outweigh the costs and uncertainty associated with such an undertaking.