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December 2, 2002

Letter of Comment No: 38 File Reference: 1125-001 Date Received: 12/5/02

Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856-5116

Re: Proposal For a Principles-Based Approach to U.S. Standard Setting (File Reference

No. 1125-001)

Dear Ms. Bielstein:

We appreciate the opportunity to provide the Financial Accounting Standards Board (FASB or Board) with a summary of our initial views on its *Proposal For a Principles-Based Approach to U.S. Standard Setting.* This summary is being provided to facilitate our participation in the roundtable discussion scheduled for December 16, 2002. We will submit a more detailed response letter by the January 3, 2003 due date indicated in the FASB's Request for Comments.

Potential Benefits

We encourage the Board to move towards more of a principles-based approach to setting accounting standards. In our view, such an approach can provide numerous benefits. For example:

Standards produced under a principles-based approach will bring more focus on the
economic substance of transactions rather than their form. As a result, financial
reporting could become more representationally faithful and more useful for
decision-making purposes.



- Because of the reduction of detailed rules and complex exceptions, accounting and financial reporting requirements will be simplified and easier to understand. This should result in reduced learning and education costs for new accounting rules.
- The development of less detailed and less complex standards should enable the FASB to address new accounting issues in a timelier manner.
- The accounting and reporting system will be more flexible compared to a detailed rules-based system with rigid, quantitative bright lines. Thus, it will allow for greater exercise of judgment by preparers and auditors, which should in turn permit the accounting to better reflect the substance of the transactions being accounted for.
- There will be less opportunity for financial accounting engineering aimed at getting around detailed rules-based standards.

Pre-requisites for Success

For a principles-based model to be effective, however, we believe that there should be standing industry and topical committees to assist the FASB in developing the standards and providing interpretive and implementation guidance, as needed, to ensure consistency in application and comparability of results. In our view, the FASB should be the primary standard-setter responsible for providing such guidance.

Further, financial statement preparers must be willing to interpret and apply the standards within the spirit of the rule and in accordance with the substance of the transaction. Auditors must have the resolve to bring to light situations where the standards have not been applied as intended and the accounting is not in accordance with the substance of the transaction. And, regulators and others must be willing to allow the system to work, principally by limiting the extent to which they second-guess the judgments of preparers and auditors. In that regard, there may need to be increased safe harbor protection for entities to create an environment that is more conducive to making better and more informative disclosures that increase the transparency of reported financial information.

Summary

We support a move towards principles-based standards. We believe the benefits of a principles-based system will outweigh the costs of converting to and maintaining such a system, although we are still analyzing this and are interested in discussing this on



December 16. We agree with the Board that for the system to be effective, preparers, auditors, regulators, investors, and other participants in the financial accounting and reporting process will need to adjust their attitudes and behaviors about financial accounting and reporting under a principles-based system.

We appreciate the opportunity to express our views and to participate in the Board's roundtable discussion of the proposal on December 16, 2002. In the interim, if you have any questions regarding our comments, please contact James F. Harrington at (973) 236-7203 or Kenneth E. Dakdduk at (973) 236-7239.

Very truly yours,