December 2, 2002

BY EMAIL

Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: 33File Reference: 1125-001 Date Received: |2/3/02|

I am writing on behalf of the AFL-CIO to provide comments on the Financial Accounting Standards Board (FASB) proposal for a principles-based approach to US standards setting.

The AFL-CIO is the federation of America's labor unions, representing more than 66 national and international unions and their membership of more than 13 million working women and men. Union members participate in the capital markets as individual investors and through a variety of benefit plans. Union members' benefit plans have over \$5 trillion in assets. Union-sponsored pension plans account for over \$400 billion of that amount.

The collapse of high-profile companies such as Enron, WorldCom and Tyco demonstrate the fundamental importance of quality financial reporting to workers and their benefit funds. Accounting scandals at these firms cost worker funds billions of dollars, left tens of thousands of workers without any retirement savings, and ultimately undermined confidence in the integrity and transparency of the financial statements on which worker funds and their money managers rely.

The core problem with our current accounting system is that investors are forced to make investment decisions based on financial statements that do not reflect the true economics of a business. The rules-based structure of our current system contributes to this problem since financial statements are often compromised by accountants who structure transactions to comply with the word of the rules yet circumvent the intent and spirit of the standards. At the heart of Enron's accounting deception, for example, was a complex web of non-consolidated, special purpose entities ("SPEs") created to inflate Enron's earnings and hide debt. Myriad exceptions to the rules also add complexity and undermine consistency.

We want to emphasize, however, that the scandals at Enron, WorldCom and Tyco were the result both of problems with our current accounting standards and the improper application of these standards by company accountants, often with the blessing of external auditors. All three of these companies improperly accounted for transactions in order to intentionally mislead investors. However, many of the Enron SPE transactions could have been "properly" kept off balance sheet in the absence of a FASB-issued SPE rule, while Enron's underlying economic exposure to the transactions would have remained.

At WorldCom, the deception was remarkable in its simplicity. Internal accountants merely capitalized expenses that should have been accounted for as operating costs, a \$9 billion falsification that WorldCom's external auditors failed to catch. Enron's accounting deception was equally remarkable in its complexity.

We welcome the FASB's interest in repairing our flawed accounting system, and believe that the overall objective of any accounting reform must be to provide investors with transparent financial statements that reflect the true economics of a business. Worker benefit funds have already been actively on one critical aspect of accounting reform, which is the need for truly independent auditors. Specifically, worker benefit funds have supported regulatory reforms and sponsored company-specific shareholder proposals that seek to eliminate the conflicts of interest that can compromise an auditor's independence. Shifting to a principles-based approach to U.S. standards setting, if properly implemented, could be another important step toward this overall objective.

A shift from a rules-based system to a principles based system however will necessarily place a greater burden on those who oversee the accounting industry to police adherence to the principles at the heart of a new system. A principles based system requires a stronger more independent oversight regime than a rules-based system. The new Public Accounting Oversight Board provides the opportunity for restoring investor confidence in the public accounting profession. However, the appointment and resignation of William Webster as Chairman of that board, together with today's press accounts of Judge Webster's continuing involvement in the management of the Board and the board's involvement in secret meetings with the AICPA, give cause for concern. We could not support a shift to a standards-based accounting system unless we had confidence in the PAOB.

To ensure proper implementation, we believe that it will be essential that FASB:

- Provide sufficient guidance for applying the principles-based standards to ensure comparable and consistent accounting among companies;
- Resist pressure to grant exceptions when formulating interpretive and implementation guidance;
- Require extensive disclosure so that users of financial statements understand how accounting standards are applied; and
- Allocate sufficient resources for effective implementation of new standards.

We support FASB's efforts to improve the quality of financial reporting and thank you for this opportunity to comment on this proposal. If you require any additional information, please feel free to contact me directly at (202) 637-3953.

Sincerely,

Damon A. Silvers Associate General Counsel AFL-CIO