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Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 13
File Reference: 1125-001
Date Received: 11/21/02

Re: File Reference No.1125-001; Proposal – Principles-Based Approach to U.S. Standard Setting

Dear Mr. Herz:

Sempra Energy is pleased to have this opportunity to comment on the recent Financial Accounting Standards Board's (FASB) proposal for a principles-based approach to U.S. standard setting. In general, we support the proposal's objectives and agree with many of the anticipated benefits. However, we also share a number of concerns associated with moving towards a principles-based approach, many of which have already been contemplated in the proposal itself and in various news sources.

As part of the current "rule-based" approach, there are numerous exceptions to the standards, which aim to either limit volatility in earnings or ease the transition to a new standard. Statement 133, *Accounting for Derivative Instruments and Hedging Activities*, is perhaps the best example of a standard with exceptions, and then further exceptions to the exceptions. This in turn has created more detail and complexity and has fostered a "check the box" attitude toward compliance. We believe a principles-based approach will focus more on the compliance with the economic substance of the standards versus the detailed rules and exceptions.

Our main concerns, however, in moving towards a principles-based approach are in its inherent reliance on judgment and the need for an overall shift in ingrained behavior by all constituents. Reliance on good faith judgment inherently runs the risk of reducing comparability, thereby making enforcement more difficult. The proposal is not clear on how the FASB plans to address this issue.

Likewise, a principles-based approach will result in less interpretive and implementation guidance, which has previously come about largely due to demands by the various constituents. An overall shift in behavior seems unlikely given our current legal and litigation framework. As the proposal points out, there is a risk that a continued demand in interpretive and implementation guidance will create an atmosphere for other groups to become "de facto" standard-setting bodies, without due process from FASB. Again, it is not clear how the FASB plans to address this issue.

Finally, we would like to seek more clarity on the effect of FASB's plans to consolidate its rule making authority through the administrative changes in the Emerging Issues Task Force and the elimination of the Accounting Standards Executive Committee. Specifically, what process will the FASB use to determine the type and content of interpretive and implementation guidance? If two of the aims of having exceptions to standards in the current "rule-based" system are to reduce earnings volatility and ease transition, how will these issues be addressed under a principles-based approach, which sets to eliminate or reduce exceptions? We hope that the FASB will provide further clarity on these questions prior to an adoption of the current proposal.

We appreciate the opportunity to express our views and opinion and would be pleased to discuss our comments with the staff. Please do not hesitate to contact my staff at (619) 696-2477 or me at (619) 696-4888 regarding this response.

Very truly yours,



Frank H. Ault