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From: Nick White [mailto:nick.white@transitive.com]
 Sent: Tuesday, October 22, 2002 12:30 PM
 To: director@fasb.org
 Subject: Principles Based Accounting

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Dear Sir,

For the first time since moving to the US some 20 years ago I feel compelled to write to the FASB about one of the matters under consideration. As I am in high tech and did not write on the subject of stock option accounting, you will understand that this is something I feel very strongly about. As a preemptor, I should point out that I qualified in the UK as a Chartered Accountant in 1981 and the US as a CPA in 1983. I have been based in the US since 1982 and am now the CFO of a UK/US based company which keeps its records so that we can report in UK GAAP in sterling and US GAAP in dollars.

With respect to the specific questions:

1. Do you support the principles based approach?

Absolutely, whole-heartedly and without reservations. The entire shambles of US corporate governance is in my mind partially caused by the detailed rules based approach that we currently have. Notwithstanding the Worldcom fraud, the Enron issues and many of the other matters that have arisen are simply because if one provides a black and white rule, there will be those who are tempted to go as close to the line as possible. Spell out 10 indicators and there will be those that justify what they do because 6 indicators are on their side of the line, even if the entire essence of the contract, revenue or accounting matter is clearly on the "other" side of the line. We have become lawyers in these matters arguing one point after another as to whether we are complying with a rule, rather than looking at the substance of a transaction and ensuring that the accounting complies with the substance. Form over substance is simply Bad accounting.

I am reminded of a comment in the Financial Times recently...."lawyers make great lawyers, but lousy accountants. " The system that we have created in the US makes accountants operate like lawyers. When, however, was the last time that you asked a lawyer to draft a contract that was fair to both sides? We don't. Contracts are drawn up by two sets of lawyers each battling their own position. If one wants a fair view, or as the UK refers to it, a "true and fair view", I would never go to a lawyer! A judge possibly....

2. The IAS 1 approach

Since the IAS has already made inroads into that arena, why would the US want to start afresh? The IAS approach is valid, and maintaining the true and fair override is critical. The SEC's approach has been to disclose, disclose, disclose. While that may help analysts, to most readers it is of little help as they don't understand the disclosures. A true and fair view is the only way in which to make accounting reports useful.

3. Guidance

Guidance that takes specific examples with plenty of details would be helpful. Be very careful about providing broad guidance with checklists. The more black and white issues can be defined in, the easier it is for someone to create an instrument that gets around the intention of the principle. If the line that splits accounting A from accounting B is foggy, then the interpretation by Company management and by their auditors has to focus on the facts and what is good accounting. That has to be the objective...good accounting!

4. Adjustment by investors etc.

Users of accounts in the UK and other countries seem to be perfectly comfortable with principle based accounting. If the principles are set, then I would argue that the comparability may actually improve as Wall Street, or legal, activities cannot change a duck from being accounting for as a duck!

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