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LARK RESEARCH, INC.

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Mr. Robert H. Herz
Chairman
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Also sent by e-mail to director@fasb.org.

Dear Bob:

I am pleased to have this opportunity to comment on the Board's proposal on adopting a principles-based accounting approach. As you know, I am an independent security analyst who has followed accounting standards and financial reporting issues for many years, mostly in my previous capacity as Chairman of the Committee for Improved Corporate Reporting at the New York Society of Security Analysts. However, the opinions expressed in this letter are my own and not necessarily those of the Committee or the NYSSA.

I am generally supportive of a move to a more principles-based approach to accounting standard setting. Your proposal describes very well some of the problems that have arisen under the current "rules-based" approach. The experience with Statement 133 is the most extreme example of the negative consequences of the current approach. While I am not familiar with all of the specifics of the conceptual framework as contained in the Financial Accounting Concept Statements, it makes sense to me that these concepts would need to be tightened up before implementing a more principles-based approach. Furthermore, I support the concept of a true and fair view override, as long as any overrides are disclosed adequately to users.

Nevertheless, I also believe that a move toward a principles-based approach could cause greater problems unless a strong infrastructure for addressing implementation issues is put in place. Your proposal recognizes the need to redefine the roles of the EITF and AcSec, but it still does not address the lack of participation by the investment community in the development and ongoing implementation of accounting standards. It seems to me that the evolution towards the current rules-based approach was supported by a desire not only for consistent application, but also correct application. Yet, significant problems in the application of accounting standards have surfaced anyway. Consequently, I believe that there is a high probability that shifting to a principles-based approach will lead to more instances of companies interpreting the standards in a way that might be technically permissible, but produces a result that most knowledgeable and objective observers would agree is misleading or wrong. Rather than decide these issues through the thoughtful deliberation of experts, there will be more instances of settling them in the courts after the fact with judges and juries who do not have the necessary time and expertise. It seems to me that the most effective way to address this potential problem is to push the investment community to take a more active role in setting and implementing accounting standards and monitoring financial reporting practices. Specifically, I have five proposals for accomplishing this:

1. <u>Hold company conference calls after full financial statements are filed with the SEC</u>. While this may go against the SEC's effort to accelerate the disclosure of market-moving information, I believe that it could help to reduce the speculative fervor that is becoming an increasing barrier to effective corporate disclosure. Under current disclosure practices, it is more important to get EPS and revenue numbers out so that market participants can trade on the news. Holding conference calls after the financial statements are available will encourage more thorough discussion around all of the operating and financial issues. It would potentially facilitate the discussion of accounting issues more frequently. It might also send a message to market participants that this discussion and review is more important than trading on the news.

2. <u>Hold annual investor/analyst meetings specifically to discuss company accounting and financial reporting issues</u>. This would provide financial statement users with a forum to evaluate and assess the quality of a company's accounting and financial reporting practices. It would also give companies a systematic way of determining

which disclosures are important to financial statement users. In this way, it would promote more effective financial reporting and may allow issuers to reduce the volume of their financial disclosures. As part of this meeting, analysts and investors ought to have the opportunity to ask questions of the auditors.

3. Re-start AIMR's Corporate Information Committee. For nearly 15 years, the CIC provided a forum for analysts to come together and evaluate financial reporting practices by industry. It was disbanded in 1996 ostensibly out of legal liability concerns that could have arisen because the quality of the effort was not uniform across industries. Even with this "uneven" effort, there are many examples where subcommittees were able to get companies to change their reporting practices and achieve greater consistency in reporting key operating and financial data. I am not an advocate for the CIC's past tradition of giving out awards to the top company in each industry. Instead, I believe that a new CIC should focus on identifying best practices and material deficiencies. In the past couple of years, there has been talk of getting the CIC back on its feet, but without the support of all constituencies and a commitment by the investment community to staff the effort, it will not happen soon.

4. Strengthen investment firms' financial reporting quality control efforts. For many years, it has been acknowledged that the user community does not participate actively in the standard setting process or in ensuring quality financial reporting. While corporate issuers have always dedicated adequate resources to respond to FASB and SEC proposals, the investment community has mostly been silent, leaving only the AIMR to provide input to the standard setters regularly. In many of the largest investment firms, there is no person who is responsible for monitoring and responding to financial reporting issues. With all of the attention that accounting problems have received over the past year, many investment firms are just now beginning to designate specific analysts to serve as their internal accounting experts. I am also aware that the FASB has signed up a number of institutional investors to serve on an advisory council. These are good first steps, but they are not nearly enough. Given the importance of accounting and financial reporting to the investment decision-making process, many more investment firms should have professionals on staff whose primary responsibility is not only to act as an internal resource but also to staff efforts such as the CIC and respond externally to individual companies, industry groups and standard setters on accounting and financial reporting issues.

5. Support independent research. While I acknowledge that this recommendation is self-serving, I believe that the investment community would be well served to have a strong independent research effort, paid for by investors, to act as a counterbalance against the trading-oriented research produced by brokerage firms. Separating research from investment banking will not solve this problem. Nor should research be separated completely from brokerage firms because brokerage-sponsored research plays an important role in advocating on behalf of issuers. However, there should also be a strong voice providing more objective information to assist investors in their decision-making. While many investment firms either have or are capable of developing high quality research on their own, there is a an important role here for focused, independent experts.

These five proposals along with the redefinition of the role of the EITF and AcSec should provide the necessary infrastructure to facilitate the transition to principles-based accounting. They address initial and ongoing accounting standard implementation issues at the corporate and industry levels as well as across industries. They also should begin to address the speculative fervor which has resulted in a rapidly changing shareholder base that serves as a disincentive for full and complete financial disclosure. While it is impossible to eliminate speculation completely, these proposals can go a long way toward restoring the proper balance.

Of course, even if my proposals were adopted, there is no guarantee that they would solve all of the problems that we currently face. There will always be ways of circumventing any infrastructure or institutional practices. Still, with the support and encouragement of all constituencies, these proposals could be a positive signal for change.

Sincerely,

Stephen P. Percoco