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I should qualify my comments by stating that I am currently pursuing a masters of accountancy and am employed as a staff accountant by a small public accounting firm. As a practitioner, most of my work does not directly involve FASB statements or other technical literature. I also have one year of experience as an auditor at one of the (then) "big five" professional services firms.

**1. Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?**

In theory, the proposal is very appealing, for two fundamental reasons. First, increasingly complex business transactions demand increasingly complex accounting methods; as markets evolve, so must accounting practices. I am no expert on FASB statements, but my impression is that the Board has responded by promulgating more detailed, complicated, and restrictive standards. (I will be making this assumption throughout my comments.) To adopt standards that provide guidance for every unique situation, every set of circumstances, would require endless time, energy, and resources. If the Board does not modify its current approach to standard setting, it may be caught in an endless game of "catching up," reacting to emerging issues by issuing further statements and guidance, not by adhering to core principles. And I, for one, am not convinced that the quality of standards is directly proportional to the number of standards.

Second, a principles-based approach to standard setting allows more room for professional judgment. Of course, this raises the obvious question of whether, particularly in the wake of recent high-profile accounting scandals, it would be prudent to trust public and/or private accountants with the task of "measuring and communicating reality" (Ruth D. Hines, "Financial Accounting and Reality," 1988) without clear, firm, and specific direction. I will address this question further; for now, suffice it to say that if the principal goal of financial accounting is to provide information that is useful for business and economic decisions, and if the market rewards firms that report high-quality financial information and punishes firms that report low-quality financial information, why should we concern ourselves with the prospect of unethical behavior by accountants? In the end, accounting methods that provide useful information would "win," and accounting methods that do not provide information that is useful would "lose." Accountants who are lured by the immediate incentives of misrepresenting themselves (or their clients) would incur the wrath of the market and wish they had exercised true professional judgment, while those who resist the temptation would be glad they did. Moreover, one would hope that recent accounting scandals would have a deterring effect upon potential "cheaters," who have now witnessed the painful consequences of misrepresentation for personal gain.

- 2. Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair view override? The SEC staff plans to consider comments from respondents to this proposal in connection with its study on the adoption of a principles-based approach mandated by the Sarbanes-Oxley Act of 2002.**

Overall, I would defer to those who are more qualified in such matters. IAS 1 would seem to provide a good starting point for a principles-based approach to standard setting; however, I cannot say that I have strong feelings in either direction. If standards are created to provide basic guidance without technical specifications, it does seem necessary to have a “common denominator” of sorts—I think that a clear and concise definition of the financial statements would serve this purpose.

A true and fair view override would certainly be consistent with the nature of a principles-based approach to standard setting. Based on my understanding, a principles-based approach effectively recognizes the ability to exercise discretion as a key component in the financial accounting and reporting process. To suggest that certain standards, even if they are broad, apply without exception would impose a limit to professional judgment, when the ability to use this judgment provides one of the most compelling reasons to adopt a principles-based approach.

In general, one of the critical factors in determining whether exceptions should be allowed must be whether—or to what extent—allowing exceptions would lead to abuse of the general principle. I am unaware of any empirical evidence relating to the true and fair view override provision of IAS 1, but I suggest that such evidence needs to be gathered and/or considered prior to a decision on the matter.

- 3. Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?**

Under a principles-based approach to standard setting, interpretive and implementation guidance should be provided only as necessary. When and where it exists, guidance should define its scope and objectives, e.g., under what circumstances it applies, whether it intends to illustrate possibilities or requirements, etc. Of course, the more difficult task would be to determine when and where guidance should exist. The Board may wish to adopt a “wait and see” approach to providing guidance. For example, after the Board issued a principles-based statement, it could conduct an evaluation of the statement to determine whether its provisions were adequate. Based on its findings, the Board could then decide whether further guidance was necessary to interpret and/or implement the statement.

More specifically, the Board’s primary objective in issuing guidance should be to improve the clarity of an existing standard. Empirical evidence of confusion among users of financial information with regard to a particular standard, or that the standard was being applied in manners that were not consistent with its underlying principles, would indicate the need for further guidance. Otherwise, the Board should defer from issuing guidance.

**4. Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?**

Yes, I believe users of financial information would be able to adjust to a principles-based approach. Whether they in fact would remain to be seen. At a practical level, the Board's decision to adopt the proposed approach would likely cause a variety of reactions.

Among preparers and auditors, the change may regrettably lead to abuse of the power that is inherent in the increased role of professional judgment ("we can do whatever we want now, as long as we can justify it somehow"). In other words, some preparers and auditors would view a principles-based approach as their opportunity to "get away with" that which was clearly unacceptable under previous standards. One hopes that this would be the exception, not the rule. I suspect that a principles-based approach would produce few changes to the status quo for many preparers and auditors. In general, preparers would have little incentive to modify their current methods and behavior ("if it ain't broke, don't fix it"). Furthermore, the costs of implementing changes may, at least in the minds of preparers, outweigh any benefits that would be realized as a result.

Auditors would have a professional responsibility to align their approach to the approach adopted by the Board, assuming that the SEC continues to recognize the Board's authority. Initially, most auditors would probably refer to the "old" standards as a means of justifying their positions on various issues, and those who did not would be reluctant to adhere to an opinion that might be controversial, in light of recent accounting scandals and subsequent proposals for increased regulation of the audit industry.

Unless the SEC perceived widespread abuse of the new principles-based standards, I see no reason why it would not continue to support the Board as an authoritative standard setting body.

The Board's proposal to adopt a principles-based approach could have the greatest impact on investors and creditors. To some extent, the proposal would gauge the level of understanding investors and creditors have with regard to financial information. In other words, a principles-based approach would have the practical effect of allowing preparers and auditors to choose between different accounting methods, as long as those methods were consistent with certain underlying principles. This could result in a wide range of accounting methods among firms that are otherwise comparable. Despite any similarities between the firms, a comparison of their financial statements would suggest significant differences. Investors and creditors would bear the burden of "translating" one set of financial statements into the "language" of the other, so as to ensure that they were comparing "apples to apples."

**5. What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?**

One of the greatest benefits of a principles-based approach to standard setting in the U.S. could be increased transparency. In general, I believe a principles-based approach would encourage all users of financial information to focus on the substance, not the form, of a transaction. Preparers and auditors would have incentives to provide financial information that most accurately represents the firm's true position. Furthermore, recent accounting scandals would discourage preparers and auditors from abusing their privileges. The end result would be efficient dissemination of high-quality financial information.

The costs of initiating a principles-based approach would be high for many users of financial information. Obviously, the Board would need to have significant resources at its disposal in order to succeed in adopting the new approach. The costs incurred by preparers would vary from minimal to moderate, depending on the number of practical changes that would result. Auditors would need additional training on new standards and, more importantly, underlying principles of those standards. Knowledgeable investors and creditors would require little more than extra time to decipher "new" accounting measures and reports. On the other hand, naïve investors and creditors could incur significant costs in attempting to understand the effects of new standards on financial reporting.

I have little to no experience in empirical testing, and therefore no insight to offer with regard to quantifying the benefits and costs of a principles-based approach.

**6. What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?**

From my perspective, the discussion surrounding the proposal to adopt a principles-based approach should focus primarily on the ability of preparers and auditors to exercise sound professional judgment. To exercise good professional judgment requires conscientiousness and competence. Preparers and auditors that have both can be trusted to apply principles-based standards ethically and effectively. However, power can certainly have a corrupting effect, and the Board should be careful to avoid granting preparers and auditors more of it than they can handle responsibly. Unfortunately, empirical research seems incapable of providing answers to such questions about the fundamental nature of man. In the end, I suspect that the Board will need to exercise its own professional judgment in deciding whether to adopt a principles-based approach to standard setting in the U.S.