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To: The Financial Accounting Standards Board

From: Colleen LaWare Date: December 12, 2002

Subject: Comment on the proposal for a principles-based approach to U.S. standard setting

This memo is in regards to the recent proposal to switch from a standard setting process based on rules and strict guidelines to a principles-based approach. This topic has recently come up in the discussion of my Intermediate Accounting class at Providence College. In a contemporary business environment comprised of malpractice and unprofessional conduct, especially in the accounting industry, I strongly believe that a principles based approach to standard setting will not suppress this inappropriate behavior, but actually foster it. I recommend that the FASB reconsider a conversion to principles based standards and a merge of Generally Accepted Accounting Principles for the United States with standards set by the International Accounting Standards Board.

In the proposal posted on the FASB's website, Sir David Tweedie (chairman of the International Accounting Standards Board) states, "Our approach requires a strong commitment from preparers to financial statements that provide a faithful representation of all the transactions and a strong commitment from auditors to resist client pressures." The question that should be kept in mind is whether these preparers, the companies they are employed by, and outside auditors will meet these expectations if the U.S. does adopt a principles based approach similar to that of the International Accounting Standards Board.

Three examples that have recently been in the news that show why we should doubt that auditors would resist client pressures are the activities of Tyco with Pricewaterhouse Coopers, Enron Corp. with Arthur Anderson, and WorldCom Inc. with Arthur Anderson. Specifically at Tyco, the internal auditors manipulated accounting techniques to cover up bonuses made to their top executives, and these noticeable mistreatments were not recognized in the external audits performed by their outside auditor, Pricewaterhouse Cooper. Other negligent behavior in financial reporting at Enron Corp. and WorldCom Inc. remained undisclosed by their external auditors as well. Because what the company reported did not represent what actually existed or happened, they did not provide a "faithful representation" which is required to adopt a principles

based approach like that of the IASB. If companies act without integrity under a strict rules based approach, it can be highly expected that these flaws will also be repeated under a principles base approach that is easier to manipulate.

Implementing a principles based approach will diminish the comparability and consistency of information provided by firms. With a principles base approach, there will be more flexibility to allow auditors to apply the standards in a way that will benefit their individual company's specific circumstances. If the manner in which each company measures and reports information differs from the methods used by another entity, their information will not be comparable. Companies may also change their techniques between periods due to changes that the company encounters. Therefore, the information provided will not meet the quality of consistency either. The principles-based approach offers the possibility that both these events will occur.

Many proponents of the principles-based approach, such as Harvey Pitt (former Chairman of The Securities and Exchange Commission), believe that a principles based approach is a form of effective regulation in which businesses will not be required to conform their decisions and guidelines to meet specific guidelines. But when taking the aforementioned incidences into consideration, along with others, I feel that the public does not have enough confidence in the ethics and integrity of corporate America that they will make the right decisions. Prescribing standards based on principles rather than rules will not be relevant and reliable to investors and creditors using the information because the possibility for companies to manage their earnings deceitfully is far too great.