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Dear FASB,

This letter is in response to requests to your request for comments regarding “Principles-based Approach to Standards.” I support the Financial Accounting Standards Board (FASB) and hope that the FASB continues to be the standard-setting body that represents Certified Public Accountants in the United States.

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 the transparency of U.S. financial accounting and reporting?

I support the Board’s efforts for a principles-based approach to U.S. standard setting for two main reasons. I believe that the current approach to U.S. standards setting has become both cumbersome and overly burdensome in its complexity. In addition, I believe that there is merit to the fact that the accounting standard-setting bodies have shown preference toward certain industries in the standards that are issued and that principles-based standards would alleviate these discrepancies.

The current U.S. accounting standards have become too complex for the accounting industry to work with efficiently. As noted in previous statements by the FASB, the term “standards overload” has become almost synonymous with U.S. accounting standards. The first thirty-five (35) FAS Statements of Standards were issued in the 1970’s with ten (10) of them in 1979 alone. The 1980’s saw the issuance of seventy (70) standards and the 1990’s saw the issuance of thirty-two (32). At first glance this would appear to be a slow down of the issuance process. However, a closer look reveals that the first one hundred (100) FASB Statement of Standards were significantly less written material than the next forty (40). In other words, the first one hundred (100) FASB Statements of Standards took approximately 1,200 hundred written pages versus 1,600 written pages for the next forty (40). Clearly, the process has slowed down due to the additional complexity of each new standard, not because there are less standards being issued.

The additional complexity of the current FASB Statements of Standards is aided by the FASB’s apparent desire to get caught up in details that should not be necessary if the accounting industry moved away from the current trend and toward the principles-based approach. This is in part due to the appearance of the accounting standard-

setting bodies giving preferential treatment to various industries, which requires complex identification of accounting treatment to those industries.

An example of statements that seemed to be related to either special interest groups or unnecessary minutia include the following:

- APB 27: Accounting for Lease Transactions by Manufacturer or Dealer Lessors
- FIN 36: Accounting for Exploratory Wells in Progress at the End of a Period
- FIN 42: Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power
- FTB 79-7: Recoveries of a Previous Writedown under a Troubled Debt Restructuring Involving a Modification of Terms
- FAS 44: Accounting for Intangible Assets of Motor Carriers
- FAS 46: Financial Reporting and Changing Prices: Motion Picture Films
- FAS 53: Financial Reporting by Producers and Distributors of Motion Picture Films
- FAS 73: Reporting a Change in Accounting for Railroad Track Structures
- FAS 120: Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts

A good case can be made that these standards would no longer be necessary if there were principles-based standards in place.

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?

I believe that the Board should develop an overall reporting framework if they adopt a principles-based standards policy. In addition, I believe that the Board should allow a true and fair view override as long as the burden of proof rests with the practitioner in conjunction with an approval by the auditor.

The basic premise of IAS 1 is to prescribe the minimum structure and content, including certain information required on the face of the financial statements. In addition IAS 1 defines the overall considerations for financial statements, which are described in the statement as:

- Fair presentation
- Accounting policies
- Going concern
- Accrual basis of accounting
- Consistency of presentation
- Materiality and aggregation
- Offsetting
- Comparative information

Upon further analysis of IAS 1, I find that the basic accounting hierarchy is present (IAS 1.14) in the standard (i.e.; relevance, reliability, comparability, etc.). I believe this overall reporting framework serves a valuable purpose and should be utilized in the establishment of any principles-based standards developed by the FASB.

IAS paragraph 13 discusses the event of a departure from the requirements of the IAS standards. This is also referred to as the “true and fair view override” or just “fairness override.” The IAS discusses the treatment of the management override rule and suggests that management give users detailed information on the difference between the “normal” treatment in accordance with the standards and the treatment determined to be necessary by management. The FASB has taken the position that the new principles-based standards include a “fairness override” to deal with the extremely rare circumstance that compliance would cause a misleading financial statement. However, the FASB has also taken a position that an objective of a principles-based approach should be to eliminate all application exceptions. I support the stance that the FASB has taken on the “fairness override” concept. However, as stated earlier I believe that the burden of proof for an override should fall on management and the auditors if they concur.

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?

I believe that the FASB should be the standard-setting body of principles-based standards if possible. Unfortunately, the current climate of the accounting profession appears to be heading toward a more federal based oversight instead of the self governed approach that has been the norm in the profession for the last several decades. I believe that one of the most important tasks that the FASB should set forth in their agenda is the continuing self governing of the accounting profession that we have enjoyed for so many years.

The principles-based approach can become a natural lead into the SEC for continued self governance of the accounting profession. If a good case can be made that the principles-based approach will encourage those applying an accounting standard to comply with the both the letter and objective of the standard, then it may alleviate the concerns that SEC currently has with the accounting profession. It will be up to the FASB to convince the SEC that principles-based standards will translate to an approach that offers the potential to better leverage the skills of preparers and practitioners.

One area of concern that I perceive came when I was reading the FASB newsletter dated February 28, 2002 to preparers, practitioners and regulators. In this address you state that you will be required to resist previous temptations:

“The Board must be prepared to resist requests for detailed guidance, while its constituents will need to accept the absence of specific guidance for many transactions.”

However, further into the same address you state:

“If future FASB standards are less detailed, the potential exists for similar transactions to be accounted for differently from entity to entity. If that different accounting produces diverse results that diminish comparability (and the relevance and reliability of financial reporting), there will be a need for an authoritative body to provide implementation and interpretive guidance on those standards.”

This paragraph gives me the distinct impression that the door has been left open for the same type of standard variation, clarification and expansion that may lose the intention of principle-based standards. If that is the case, I fear that we may simply be taking a step back and ultimately ending up back where we started.

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?

I believe that preparers, auditors, the SEC, investors, creditors and other users of financial information will be able to adjust to a principles-based approach to U.S. standard setting. I believe this because principles-based standards will place the focus on basic principles and objectives. This will allow preparers to place an emphasis on accounting for the substance of a transaction rather than its form. This will make the task of the auditors easier to follow up on the preparers. If this is true, then the SEC, investors, creditors and other users of financial information will directly benefit.

The actual period of adjustment will require a considerable amount of thought in regards to implementation. How the transition from the current standards approach to a principles-based approach will occur depends on how quickly the current standard-setting bodies can adjust the current standards. I believe that the profession is geared to adjust at fairly rapid pace to the adjustments of the standards. There is already education process in place from pedagogy and academia to professional on-site training and CEU programs. All of these could adopt in a fairly reasonable period of time to the new standards.

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?

No comment.

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

I believe it is in our best interest to adopt principles-based standards in order to facilitate both the U.S. standard-setting bodies as well as the effort of the International Accounting Standard Board. In addition I believe that any movement towards principles-based standards should include a comprehensive way to codify and simplify all accounting literature.

The world has moved faster and faster toward a global economy. This movement can be seen in communications, marketing, business, travel, politics, education, technology, currency and numerous other areas. As the process of global economics becomes the norm, so will the world of financial markets. As the world of financial markets becomes a global market, then so shall the accounting for those companies that are part of that market. The fact that this will not happen overnight should not blind the U.S. to the fact that we may end up in a situation similar to our measurement standards. In other words, the United States adds immeasurable costs and time to itself because most of the world does business in metric terms not American Standard (feet, yards, miles, pounds, gallons, etc.). This exact parallel may happen with our accounting standards if we do not start the process of working with the IAS in conjunction with the changes to the FASB standards.

As a final note, I believe that the FASB should develop a comprehensive way to deal with all the various accounting literature. There are too many standards with too many clarifications in too many different publications. I suggest a movement toward a Structure Query Language (SQL) that works with a program like Folio that could reference all of the documentation from the FASB, SEC, AICPA and all other professional literature. The current technology would be able to see this vision to fruition and the timing of the principles-based standards would be an appropriate time for this overdue necessity.

Thank you for your consideration regarding my thoughts on these issues.

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