December 6, 2002

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  

Re: File Reference No. 1125-001

Dear Ms. Bielstein,

The Committee on Corporate Reporting (CCR) of Financial Executives International (FEI) wishes to express its views on the Proposal, Principles-Based Approach to U.S. Standard Setting ("the Proposal"). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of the CCR and not necessarily the views of FEI.

We would like to commend the FASB for certain recent actions, including this proposal, that it has taken to improve the quality of accounting standards in the United States. For example, we believe the FASB’s decision that AcSEC should no longer issue SOP’s is entirely appropriate. We also support the procedural changes to the EITF. In that regard, CCR believes the most current EITF agenda committee report was one of the best we have seen. It was crisp and concise.

CCR is generally supportive of a principles-based approach to standard setting in the United States because we believe such an approach would significantly increase the quality and transparency of financial reporting. In addition, the proliferation of rule-based standards in the United States has made it difficult, if not impossible, for preparers and their auditors to remain current on all of the significant changes in accounting principles. Statement 133 is only one example of a standard that is overloaded by detailed rules. The rules-based approach to standards setting can lead to an increase in transactions that are engineered solely to achieve an accounting result that may not reflect the substance of the transaction. CCR believes that the FASB should develop broad-
based principles that preparers can apply to transactions using professional judgment. We believe a principles-based approach will increase the quality and transparency of financial reporting because it will result in more transactions being accounted for according to their substance rather than their form. We commend the FASB for issuing the Proposal and we are committed to working with the FASB in its efforts.

While CCR generally supports a principles-based approach to rule making in the United States, we believe there are certain issues that should be addressed in the process. We do not, however, believe that these concerns should derail the effort to move towards a principles-based approach. Rather, transition to a principles-based approach will require a significant change in the current mindset of preparers, auditors, investors, creditors and the SEC. Specifically, we hope that principles-based approach to standards setting will not lead to (1) quasi-standard setting by diverse groups such as the global public accounting firms, (2) rules that are not codified or subject to due process, and (3) “second guessing” of the application of the standards that were made in good faith.

We also support a “true and fair view” override to the general principles such that all transactions are reported in the most meaningful manner. However, we do not believe a “true and fair” override is a departure from current professional standards. For example, relevance and reliability are two primary qualities that make accounting information useful for decision-making. Reliability rests upon the extent to which accounting information is verifiable and representationally faithful (CON 2).

In short, we support the FASB undertaking a project that explores a principles-based framework, but we believe the transformation to such a framework cannot be made without a time consuming process to change the mindset of all who have an interest in improving transparency in financial reporting. We believe that without effectively addressing the issues detailed below, they could significantly impede the effective implementation of a principles-based approach to standard setting.

Quasi-standards Setting
Accounting standards with principles that apply broadly would be easier to understand, but would not necessarily be easier to implement as preparers and auditors must transition themselves from the rule-based mindset. We are concerned that the major accounting firms may issue their own interpretations of the literature that they would insist their clients’ follow. In fact, it could lead to two different firms insisting that their clients follow differing interpretations of the same literature for transactions that are substantially identical. This would not necessarily improve comparability. So-called “opinion shopping” may increase under a principles based framework.

Further, when the firms have differing views on matters currently, the EITF has served as a valuable forum for the resolution of those differences. While the EITF could improve its due process (and the FASB has taken steps in that direction), we believe such a body should continue to exist to resolve such differences of opinion.
Lack of Due Process
We are concerned that a principles-based framework might also lead to standard setting by the SEC, in the form of Staff Accounting Bulletins and other guidance, where there is less of a due process protocol than exists through the FASB. For example, the SEC had a number of rules with respect to the application of the pooling-of-interest method that were more restrictive than the requirements of APB No. 16. To our knowledge, these pooling rules were never subject to public comment. Further, the rules were never codified in a manner that made the rules widely available. Our concern is that a principles based framework will lead to an increase in standards setting by the SEC. We believe it is important for the FASB to understand whether the SEC can accept a principles-based framework that may increase diversity in the application of standards.

Comparability
A principles based approach to standards setting may lead to some diversity in the application of those principles to transactions that are substantially similar. The reason is that reasonable people, applying professional judgment in good faith, can reach different interpretations of the literature. For example, prior to the EITF resolving the issue, it is likely that different companies would have reached differing opinions as to whether certain events that arose as a direct result of September 11, 2001 were extraordinary in nature. Under a principles-based approach, we question whether this issue would have made it to the EITF, given that the goal of a principles-based approach is not to develop rules that address very specific situations, but that apply broadly. As a result, comparability would have suffered.

We are also concerned that increased diversity in accounting treatments will lead to an increase in litigation “after the fact.” In our current litigious environment we believe that a principles-based approach will require specific legislative “safe harbor” provisions for professionals that apply the principles using professional judgment in good faith.

In summary, while in theory we are supportive of a principles based approach, we believe these specific issues should be addressed. However, we are committed to working with the FASB to develop ways to address these issues.

We thank you for the opportunity to comment on the Proposal. If you should have any comments regarding this letter, please contact Tony Knapp at (847) 576-2670.

Very truly yours,

Frank H. Brod
Chairman, Committee on Corporate Reporting
Financial Executives International